WORLD BANK **EAST ASIA AND PACIFIC ECONOMIC UPDATE** 2012, VOLUME 1

Capturing New Sources of Growth

THE WORLD BANK

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THE WORLD BANK
Washington, D.C.

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1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
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1 2 3 4 13 12 11 10

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ISBN (electronic):978-1-4648-0076-4
DOI: 10.1596/978-1-4648-0076-4

Key title: World Bank East Asia and Pacific Economic Update ... (Print)
Abbreviated key title: World Bank East Asia Pac. Econ. Update (Print)

Cover photo: Hoang Ha.

PREFACE AND ACKNOWLEDGMENTS

The *East Asia and Pacific Economic Update* was prepared by a team led by Bryce Quillin and included: Douglas Addison, Antonio Ollero, Juan Feng, Jennifer Golan, Marek Hanusch, Tehmina Khan, and Rohan Dinanath Singh. The team worked under the guidance of Sudhir Shetty (Director, Poverty Reduction and Economic Management, East Asia and Pacific Region) and Bert Hofman (Chief Economist, East Asia and Pacific Region). World Bank country economists throughout the East Asia and Pacific region provided country write-ups and tables and assisted with the analysis.

Developing East Asia as used in this report includes China, Indonesia, Malaysia, Philippines, Thailand, Cambodia, Lao People's Democratic Republic, Mongolia, Papua New Guinea, Timor-Leste, Vietnam, and the island economies in the Pacific. The Newly Industrialized Economies (NIEs) include Hong Kong, SAR China, the Republic of Korea, Singapore, and Taiwan, China. Middle-income countries (MICs), as used in this report, refer to China, Indonesia, Malaysia, Philippines, and Thailand. Low-income countries as used in this report include Cambodia and Lao, PDR. The ASEAN member countries are Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam. For the purposes of cross-regional comparison, the report also makes reference to the World Bank country delineations of the Europe and Central Asia (ECA) and Latin America and Caribbean (LAC) regions.

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ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
ASEAN-4	Indonesia, Malaysia, Philippines, and Thailand
bbl	oil barrel
BI	Bank Indonesia
BIS	Bank for International Settlements
BOP	Balance of payments
CEIC	CEIC Data Company, Ltd
CPI	Consumer price index
EAP	East Asia and Pacific region, World Bank classification
ECA	Europe and Central Asia region, World Bank classification
ETF	Exchange traded funds
EPFR	Emerging Portfolio Funds Research
EU	European Union
FDI	Foreign direct investment
G-3	European Union, United States, and Japan
GDP	Gross domestic product
IDR	Indonesian Rupiah
ILO LABORSTA	International Labor Organizaton Labor Statistics databases
IMF	International Monetary Fund
LAC	Latin America and Caribbean region, World Bank classification
LICs	Low income countries
M&A	Mergers and acquisitions
MENA	Middle East and North Africa Region, World Bank classification
MICs	Middle income countries
MSCI	Morgan Stanley Capital International
NIE	Newly-industrialized economies
NPL	Non-performing loan
OECD	Organization for Economic Cooperation and Development
PMI	Purchasing Manager Index
PPP	Purchasing power parity
RMB	Chinese Renminbi
RRR	Required reserve ratio
SITC	Standard International Trade Classification
SSA	Sub-Saharan Africa Region, World Bank classification
UN COMTRADE	United Nations Commodity Trade Statistics
VAT	Value-added tax
WB	World Bank
WDI	World Development Indicators

Countries

BRN	Brunei Darussalam
CHN	China
FJI	Fiji
HKG	Hong Kong SAR, China
IDN	Indonesia
KHM	Cambodia
KOR	Republic of Korea
LAO	Lao People's Democratic Republic (PDR)
MMR	Myanmar
MNG	Mongolia
MYS	Malaysia
PHL	The Philippines
PLW	Palau
PNG	Papua New Guinea
SLB	Solomon Islands
SGP	Singapore
THA	Thailand
TMP	Timor Leste
TON	Tonga
TWN	Taiwan, China
VNM	Vietnam
VUT	Vanuatu

EXECUTIVE SUMMARY

Growth in developing East Asia and the Pacific remained strong in 2011, although it slowed from its post-crisis peaks. Strong domestic demand offset weaker external demand from the United States and Western Europe. Looking ahead, the external environment is likely to remain weak. The best prospects for the region to maintain high rates of growth, job creation, and poverty reduction are through rebalancing towards domestic demand and investing in productivity increases and further international integration.

Developing East Asia grew by 8.2 percent in 2011 (4.3 percent excluding China), a sharp decline from the nearly 10 percent growth rate recorded in 2010 (7.0 percent excluding China). This slowdown was largely due to lower-than-expected growth in manufacturing exports and supply disruptions in the wake of the Japan earthquake and tsunami and the severe flooding in Thailand, Lao, PDR, and Cambodia. Domestic demand and investment compensated for these factors and were aided by monetary policy loosening in some countries. Yet, for many countries, this pace of growth was a return to pre-crisis growth trends following the 2010 rebound that followed the global financial and economic crisis. East Asian growth remained impressive on a global scale. In 2011, growth was around a percentage point higher than in South Asia and around 3 percentage points higher than in Eastern Europe and Latin America.

Poverty continued to fall across the region with the number of people living on less than US$2 a day expected to decrease to 513 million by 2012 from 565 million in 2010. Yet much of this is driven by gains in China, and the rate of poverty reduction seems to be slowing in step with moderating economic expansion in China and other parts of the region. Employment growth also continues to be sluggish though stable.

For 2012, we expect that East Asia will remain the strongest performer among developing regions. However, growth will moderate slightly as a result of a continued weak external environment. Developing East Asia will grow by 7.6 percent in 2012 with slower expansion in China pulling down much of the regional aggregate. Excluding China, annual growth will increase by around a percentage point to 5.2 percent in 2012. But much of this will reflect Thailand's return to normal levels of production, while most of the region will see growth rates lower or unchanged from last year.

The region remains vulnerable to the continued uncertainty in Europe through trade and financial linkages. Although last December's fiscal pact and liquidity support from the European Central Bank helped stabilize financial markets, recent political events and market developments point to continued challenges. Renewed market volatility and a further slowdown in European economies cannot be ruled out. The EU, along with the US and Japan, accounts for over 40 percent of the region's direct export shipments and an estimated 60 percent if intraregional trade linked to production networks is taken into account. A serious disruption in the EU would also have knock-on effects on East Asia's exports and growth by lowering growth in other regions, particularly Eastern Europe. Moreover, European banks provide a third of trade and project finance in Asia.

Yet, most developing East Asian economies are well positioned to weather renewed volatility. Domestic demand has proved resilient to shocks, most countries have current account surpluses and hold high levels of reserves; and banking systems are generally well-capitalized. However, there are limits to this resilience. While some countries may have space for further policy stimulus in the event of another major disruption in the external environment, public debt remains above pre-crisis levels in many countries, limiting options for expansionary fiscal policy, while overheating concerns may limit further monetary loosening. Commodity exporters, many of which experienced strong growth in 2011, may be particularly vulnerable to a faster slowdown in China for which growth has been an important factor in

driving up commodity prices. A quicker than anticipated slowing of the Chinese economy could trigger an unexpected drop in commodity prices, which could force some commodity exporters to adjust rapidly.

With external demand likely to remain weak for the foreseeable future, East Asia's continued high growth rates will need to be linked less to an export-oriented model. While East Asian economies are already relying more on domestic demand to support economic growth, there is further scope for rebalancing. Some countries will need to stimulate household consumption, while in others, higher investment (particularly in infrastructure) offers the potential to sustain growth, provided this does not exacerbate domestic demand pressures that still characterize economies such as Mongolia and Vietnam. With a changing financial sector in the aftermath of the financial crisis and in anticipation of Basel III, new ways to finance higher levels of investment will also need to be found. Governments could usefully focus on accelerating the preparation of infrastructure projects, as the availability of bankable projects rather than financing is the key constraint in most countries.

In the medium term, higher investment will enhance productivity and drive growth by facilitating a shift to higher value-added activities and more innovation. Although labor productivity gains have been large across the region since the 1997/98 regional financial crisis, there is significant potential for further increases. Labor productivity levels in 2010 in Emerging Europe and Latin America were about twice East Asian levels, while the gap between East Asia and the US, the global leader in labor productivity, has narrowed only modestly since 1990.

Policies to support the movement of labor among countries can contribute to higher productivity. Migration in developing East Asia has helped fill labor shortages in host countries and remittance flows have contributed to poverty reduction and macroeconomic stability in home countries. Yet, as in other parts of the world, existing bilateral and regional migration policies do not always allow migrants to move efficiently to where returns are highest or allow firms to obtain the workers they need, and these policies may contain incentives for undocumented migration. Improved regional migration policies could enhance the gains from regional economic integration and allow those countries facing a negative demographic drag on economic growth in the next generation to obtain much-needed labor inputs.

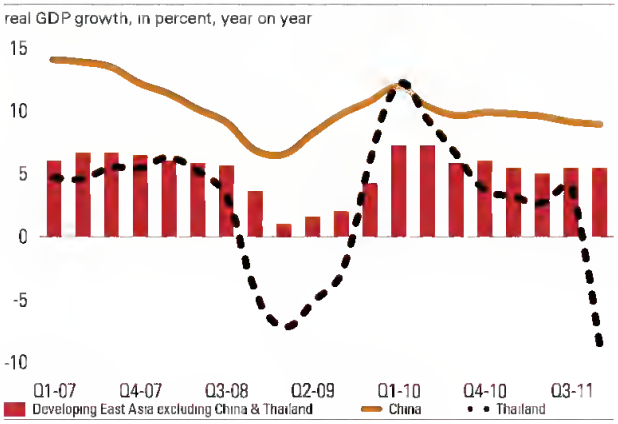
I. Growth has remained strong, though has been slowing from its post-crisis peaks

Growth in developing East Asia and Pacific remained strong in 2011, though slowed down from the rates that followed the global financial and economic crisis. Strong domestic demand and investment benefited from the easing of monetary policy in several countries and was the core driving force of growth in the second half of 2011, partly offsetting weaker external demand from developed economies. Export performance was anemic in 2011 and has weakened further in early 2012: growth in electronics exports has been flat as a result of slowing demand in Western Europe, the destination of 20 percent of direct electronics shipments. Commodities exports held up better as a result of high prices, and commodity exporting countries tended to grow faster last year. Yet slowing growth in China will likely cap the gains recently made by commodity and industrial material suppliers to the Chinese market. Renewed risk aversion in international financial markets resulted in capital outflows in the second half of last year, but portfolio and foreign direct investment returned this year and syndicated lending continued to be strong. The resilience of domestic demand should continue to drive growth this year, but may be tested by persistent uncertainty in developed markets, which may fuel further financial market volatility and lead to a sharp contraction in demand for exports from East Asia.

Growth remained strong in 2011, but moderated from the 2010 rebound

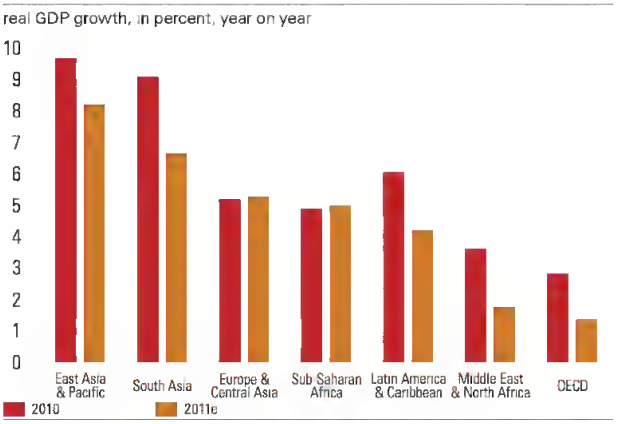
Growth remains strong in the developing economies in the East Asia and Pacific region although it is slowing. Economic growth in the region was 8.2 percent in 2011 (4.3 percent excluding China), a sharp decline from the almost 10 percent recorded in 2010 (7.0 percent excluding China). Excluding Thailand and China, the region grew by 5.6 percent in 2011 (Figure 1), comparable to average pre-crisis growth of 5.7 percent between 2002 and 2007. Outside of China and Thailand, growth recovered in the second half of the year after slowing in the first and second quarters. In Thailand, output collapsed as a result of heavy flooding in key industrial areas in late 2011. East Asian growth remains impressive on a global scale, as it was about one percentage point higher than in South Asia and about 3 percentage points higher than in Eastern Europe and Latin America (Figure 2).

Figure 1. Growth slowed in China but stabilized in other parts of Developing East Asia, though output in Thailand collapsed in Q4 as a result of the floods



Sources Haver Analytics and World Bank staff calculations

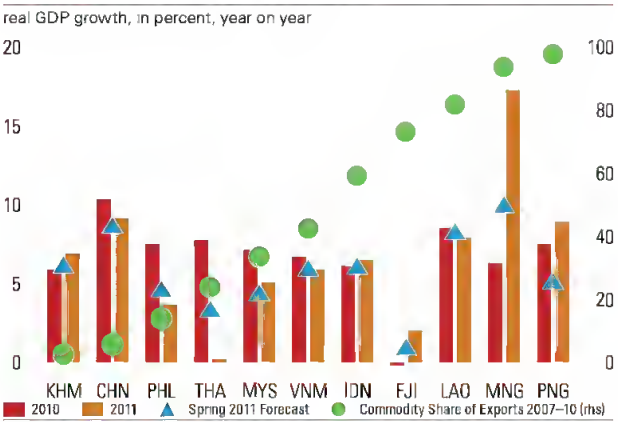
Figure 2. The region as a whole still sports the strongest regional economic performance in the world, heavily powered by China



Sources World Bank Global Economic Prospects, January 2012. Regional aggregates calculated using 2005 dollars GDP weights

Growth was in line with our Spring 2011 forecasts for the region as a whole, yet excluding China, individual forecasts tended to be overly optimistic. Growth in China remained well above growth rates elsewhere in the region, driven mainly by the industrial sector, even as it eased to 9.2 percent in 2011 from 10.4 percent in 2010. Broadly speaking, the World Bank's growth forecast was overly pessimistic for some commodity exporters and too optimistic for some manufacturers (Figure 3). Modest external demand growth and supply disruptions, due to the Japan earthquake and tsunami and the floods in Thailand, Cambodia and Lao, PDR, resulted in lower-than-anticipated growth in the region's manufacturers. Taken together, these effects partly cancel each other out and overall growth was consistent with our forecast from a year ago for developing East Asia as a whole.

Figure 3. Annual growth slowed in many countries but tended to be more robust in commodity exporters

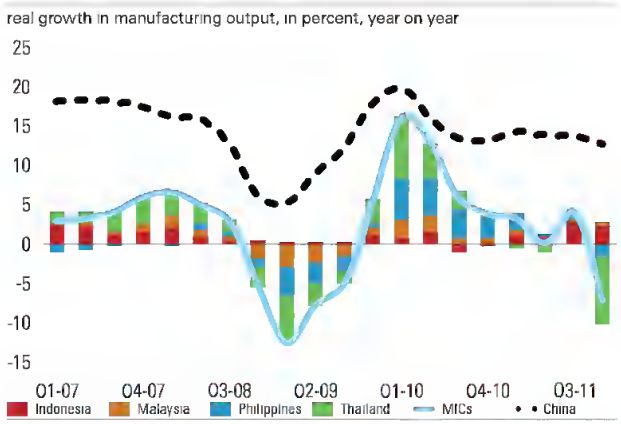


Source World Bank staff estimates

When China is excluded from the aggregate, growth in 2011 was 4.3 percent, a full percentage point below our forecast in Spring 2011.[1]

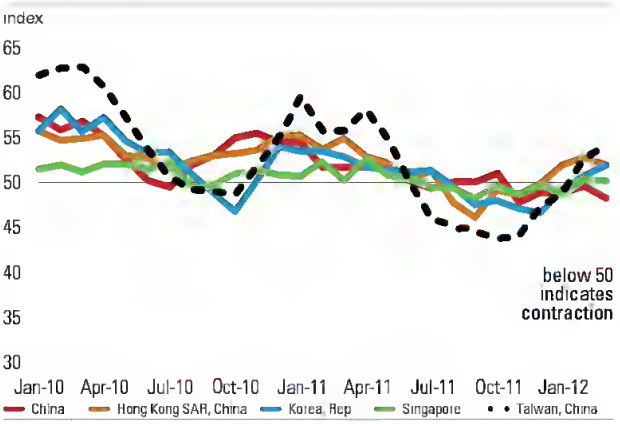
Manufacturing output growth has fallen fairly steadily since the post-crisis peak in early 2010. On the upside, manufacturing output growth, which had slumped in the first half of 2011, began to improve in the third quarter in Indonesia and Malaysia (Figure 4). Relative to 2007 levels, capacity utilization in late 2011 was about 3.5 percent higher in the Philippines and 2 percent higher in Malaysia while China and Indonesia were just at pre-crisis utilization levels. Thailand saw capacity utilization fall sharply due to fourth-quarter floods, to about 70 percent of 2007 levels, and subsequently recover robustly to just under the pre-crisis average by the first quarter of 2012. Growth continued to slow in China as the authorities took action to cool overheated property markets and external demand decelerated. Real growth in the Philippines was held back by declining net exports, caused by slowing world demand for electronics and supply chain disruptions (specifically, two large typhoons[2] plus the Japan tsunami in the first quarter and the Thai flooding in the fourth quarter). The electronics sectors were particularly hard-hit. Production at the Yazaki plant in Samoa seems to have been permanently scaled down relative to levels prior to the global economic crisis. The manufacture and export of computer hard-drives was particularly hard hit. More recently, the Purchasing Manager Indices (PMI) in the newly-industrialized countries have improved (Figure 5), after having fallen in the fourth quarter of 2011, with indices above 50 percent in March for each country except China. This points to the potential for a recovery of manufacturing in the months ahead.

Figure 4. Growth in manufacturing was modest and eased in Thailand and the Philippines in late 2011



Source: Haver Analytics
Note: Real growth in manufacturing output for China. Weighted values for Indonesia, Malaysia, Philippines, and Thailand. The lines display real growth rates yoy while the bars display contributions to regional growth rates.

Figure 5. The Purchasing Managers Index improved in the newly-industrialized economies and in China



Source: Markit/HSBC/SIPM/Haver Analytics

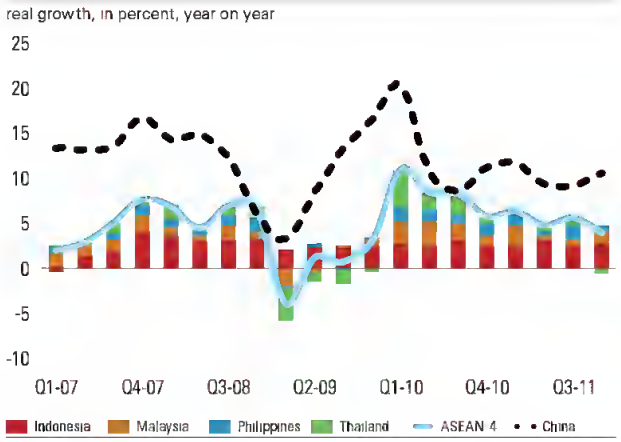
Domestic demand benefited from an easing of monetary policy in several countries. Domestic demand from consumption and investment continued to be the core driving force within the middle-income economies in the second half of 2011, except in Thailand, where private domestic consumption was hit especially hard by the floods in the final quarter of 2011 (Figure 6). Inventories became a drag on growth in Malaysia following an extended

1 World Bank (2011) "Securing the Present, Shaping the Future," *East Asia and Pacific Economic Update*, Volume 1.

2 In 2009, Typhoons *Pepeng* and *Ondoy* were ranked first and fourth, respectively, as most destructive typhoons to hit the Philippines in the last century. In 2011, Typhoons *Pedring* and *Sendong* were ranked second and seventh, respectively, with *Sendong* recording the highest number of deaths in recorded history.

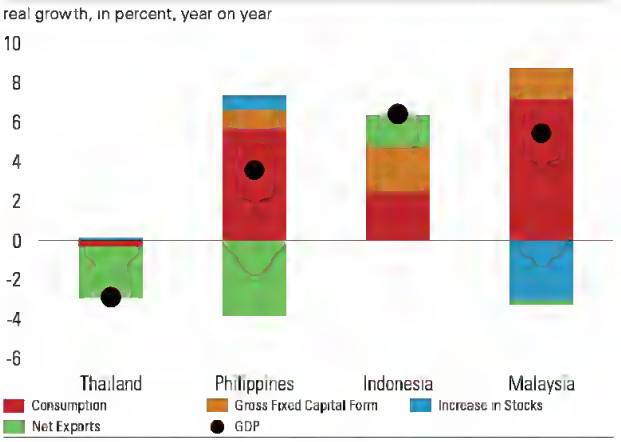
period of inventory restocking, following a sharp drawing down during the global financial crisis in 2008 (Figure 7). By contrast, inventories increased in the Philippines as firms were unable to sell their goods given weaker external demand, as well as the impacts of supply chain disruptions, and weaker construction demand. Domestic demand in China was more important to growth in the fourth quarter of 2011 than net exports (Figure 6 and Figure 10). If this pattern continues over the next several quarters, the outcome would be consistent with a move towards external rebalancing. A move towards internal rebalancing may be in evidence as well; real consumption in the fourth quarter grew to 11 percent from 10 percent in the third quarter, while real investment growth slowed to 11 percent from 19 percent in the third quarter (Figure 8 and Figure 9).

Figure 6. Domestic demand in H2 2011 remained relatively buoyant



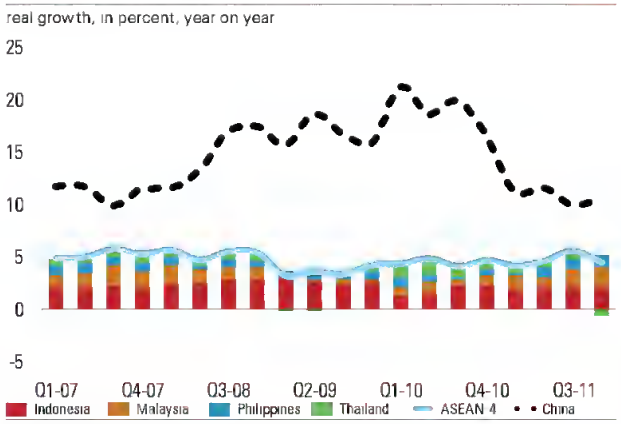
Source Haver Analytics
Note The lines display real growth rates yoy while the bars display contributions to regional growth rates

Figure 7. ...and was the main source of growth in H2 2011 except in flood-affected Thailand



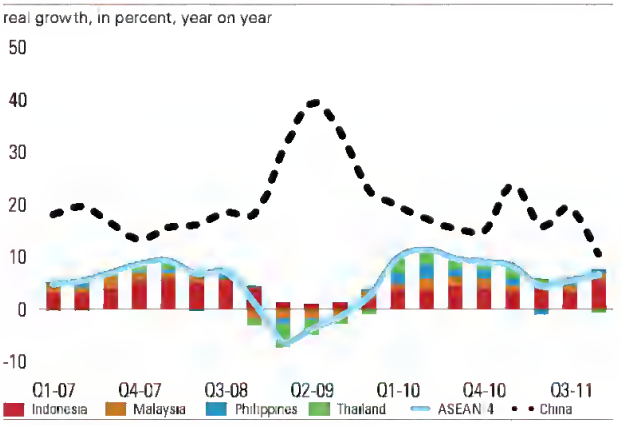
Source Haver Analytics
Note The composition of the bars display contributions to real growth

Figure 8. Consumption growth maintained its inertia in the second half of 2011



Source Haver Analytics
Note The lines display real growth rates yoy while the bars display contributions to regional growth rates

Figure 9. ...investment growth expanded in the ASEAN4 but fell in China



Source Haver Analytics
Note The lines display real growth rates yoy while the bars display contributions to regional growth rates

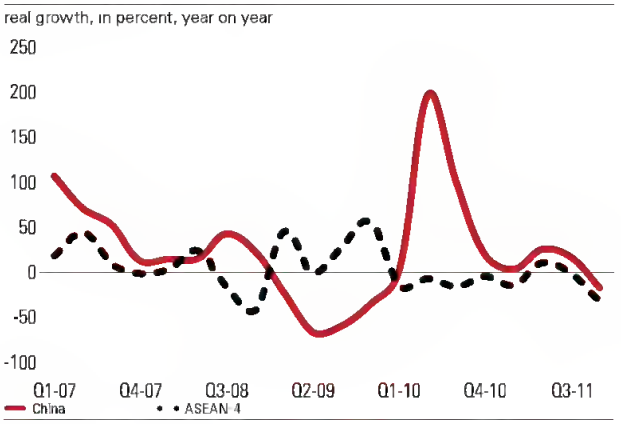
While private consumption in China had already slowed in the first half of 2011, there was a small uptick in the fourth quarter. By contrast, consumption growth had been steadily increasing each quarter within the other middle-income countries through the third quarter of 2011, with a deceleration in the following quarter (Figure 8). This can be wholly attributed to the impact of the flooding in Thailand. Excluding Thailand, the fourth quarter would

have shown an additional acceleration in consumption, driven primarily by gains in Malaysia (boosted by larger-than-expected government consumption), and in the Philippines.

The rate of increase in Chinese gross fixed capital formation jumped to 19 percent in the third quarter of 2011 and then slowed to 11 percent in the fourth quarter. The slowdown of gross fixed capital formation was particularly noted in infrastructure and real estate, which responded to various policy measures including tighter monetary policy, stronger prudential controls, and stricter qualification requirements for mortgages (Figure 9). Even so, China's rate of real gross fixed capital formation growth matched that of real consumption and remained well above growth rates elsewhere. By contrast, investment growth increased in the fourth quarter in Indonesia, Malaysia, and the Philippines, and likely would have done so in Thailand but for the flooding.

With the exception of China's strong rebound in the second quarter of 2010, the contribution of net exports to growth has been declining since 2010 in most middle-income countries. As global demand for exports slumped (see trade section below) and demand for imports was supported by relatively robust domestic demand, real growth in net exports in the second half of 2011 (Figure 10) slowed to 7 percent for China and 5 percent for the ASEAN-4 countries. Indonesia turned in the best performance for the second half, growing almost 13 percent year-on-year. The Philippines, the economy most dependent on electronics exports, posted the region's poorest export performance last year, contracting by almost 7 percent in nominal terms in 2011. The impact of severe flooding in Thailand also hit exports from the electronics sector, notably for computer hard-drives, but the average export growth rate for the second half remained positive, slowing from 14 percent in the first half of 2011 to 5.4 percent in the second half. There are some prospects for future growth, following the recovery in import demand by the US and from reconstruction efforts in Japan.

Figure 10. Net exports did not contribute to growth in the second half of 2011



Source Haver Analytics

Commodity exporters saw growth accelerate. The distribution of growth typically favors manufactures exporters as long as world demand is strong and changes in terms of trade are close to neutral. This pattern was broken in 2008 and again in 2011 as commodity prices boomed to the benefit of commodity exporters. Mongolia and Timor-Leste were clear examples with real GDP growth rates of 17.3 percent and 10.6 percent respectively. Indonesia and Malaysia, with substantial commodity exports, were also able to benefit. For example, in Malaysia, manufacturing output was outperformed by growth in agriculture, driven by palm oil and rubber. Mining output in Papua New Guinea (PNG) and Malaysia would have been a major contributor to growth in 2011 as well but for continued operational problems. In the case of PNG, mineral and energy production continue to wane as existing mines and oil wells reach the end of their productive capacity and the opening of new mines is delayed. In the case of Malaysia, the problems are natural depletion in existing mature fields and major issues with a deepwater oil reservoir.

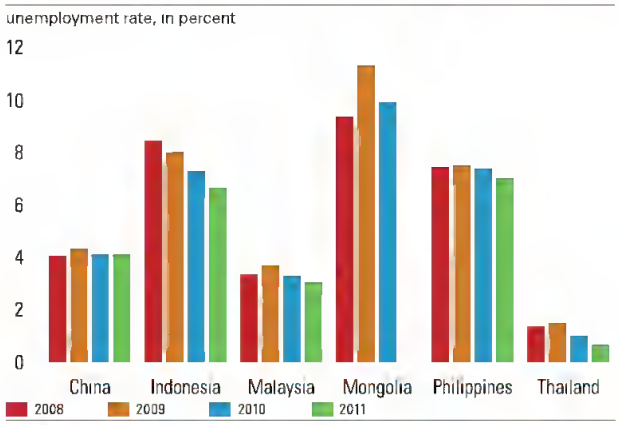
The smaller commodity exporters, other than Timor-Leste, are all Pacific Island economies and face unique challenges beyond the volatility of world commodity prices. Key among these are the absence of economies of scale, dispersed populations, remoteness from world markets, and vulnerability to geological and weather-

related natural disasters. These realities are substantial constraints on private sector development. Donor-supported government expenditures therefore often loom large in growth outcomes. A few countries such as Fiji also see growth strongly driven by tourist arrivals that picked up in 2011.

Labor markets were stable

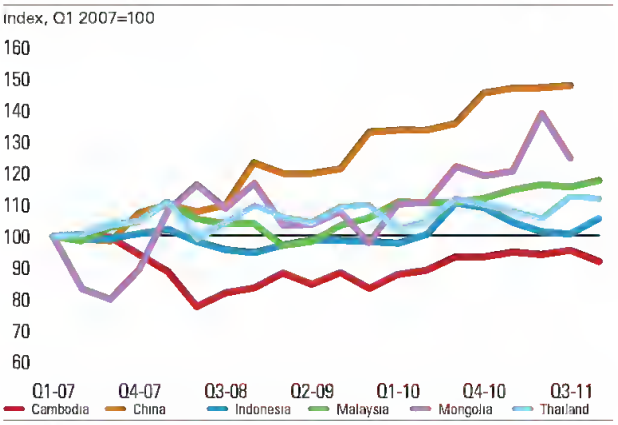
Job creation and wage growth were relatively stable in 2011. In line with the relatively slow growth in GDP, employment growth was fairly flat although overall it did fall modestly across the region in 2011 (Figure 11). Similarly, real wage growth in 2011 remained subdued after experiencing some growth in 2010. Most notably, wages in Cambodia have not yet returned to their pre-crisis levels (Figure 12). In Thailand, wages were about unchanged in 2011 from 2010 levels as the return of some post-flood productive capacity in the fourth quarter of 2011 produced a sharp spike that largely offset the declines earlier in the year. Real wage growth in China slowed in 2012 as the manufacturing wages in state-owned firms grew by 9 percent year-on-year to the third quarter of 2011 after growing in the double digits for the past three years and wages barely grew over the course of last year.

Figure 11. Unemployment fell across the region...



Source: CEIC
Note: There was a change in the sampling weight for Indonesia between February and August 2011.

Figure 12. ...while real wage growth was generally slow



Source: World Bank staff calculations using data from CEIC, Haver Analytics, Cambodia Ministry of Commerce, and Cambodia National Institute of Statistics.
Note: The lines display manufacturing wages. China's wage only reflects state-owned manufacturing jobs. Cambodia's wage only reflects garment workers' wages.

Growth in manufacturing employment was generally sluggish, with some exceptions. Manufacturing employment growth slowed in China to 2.7 percent in 2011, about half the pace of 2010. Thailand saw another year of negative growth though, reflecting the impact of the floods in the fourth quarter; the decline was twice as large in 2011 as in 2010. One exception to this negative pattern was Malaysia where export growth in petroleum, palm oil, and rubber-based products was sustained and most manufacturing sub-industries, such as rubber gloves, semi-conductors, electronic valves and printed circuits, televisions, and wooden furniture recorded employment growth (Figure 13)[3]. Another exception was Indonesia, where a 6.2 percent growth in manufacturing employment in 2011 was its fastest pace of expansion since 2004.[4] Manufacturing employment remained below pre-crisis levels in Cambodia and Mongolia as well as Thailand.

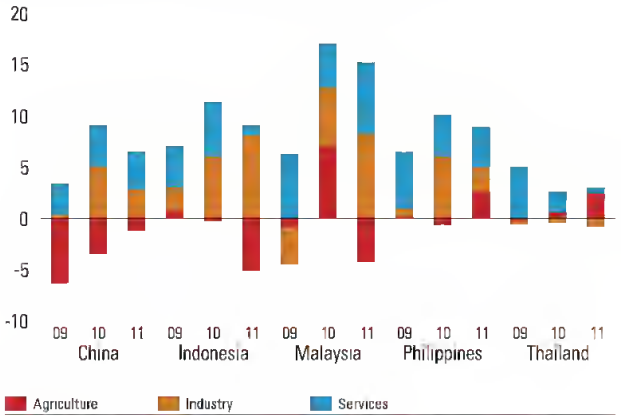
3 World Bank (2011) *Malaysia Economic Monitor: Smart Cities*, World Bank, November. World Bank (2012) *Malaysia Economic Monitor Modern Jobs*, April.

4 World Bank (2012) *Indonesia Economic Quarterly: Redirecting Spending*, World Bank, April.

The bright spot has been employment in services. Services expanded in the aftermath of the financial crisis, both in absolute terms and as a share of total employment (Figure 14). Industry, on the other hand, has not yet recovered from the financial crisis and the shocks to production caused by the Tohoku earthquake and Thailand floods. Agricultural employment has declined or been comparatively stable in most of the countries.

Figure 13. Manufacturing employment growth slowed for some countries and was negative in Thailand in early 2011.

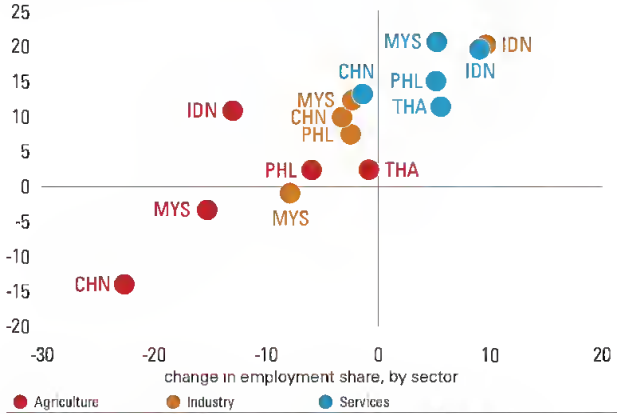
annual employment growth by sector, in percent



Source: CEIC

Figure 14. ...though the service sector emerged with strength from the crisis

change in employment by sector and change in employment share by sector, 2007–11



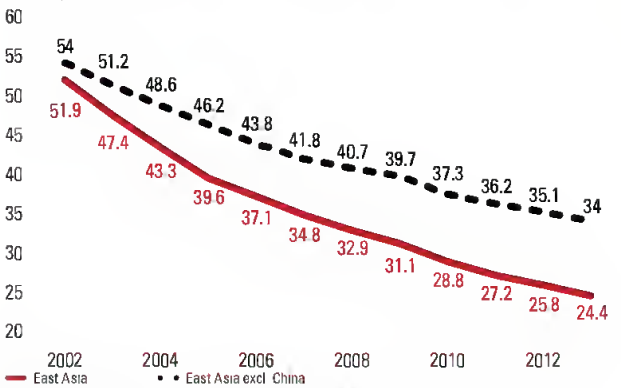
Sources: CEIC, Cambodia Ministry of Commerce and Cambodia National Institute of Statistics

Poverty continues to fall, though at a slower rate

Despite lower economic growth in the near term, poverty is expected to decrease further (Figure 15). The number of people living on less than US$2 a day is estimated to fall to 513 million by 2012, roughly half the number of people living in poverty in 2002. The region has already met its Millennium Development Goal of halving the population

Figure 15. Poverty is expected to decrease further...

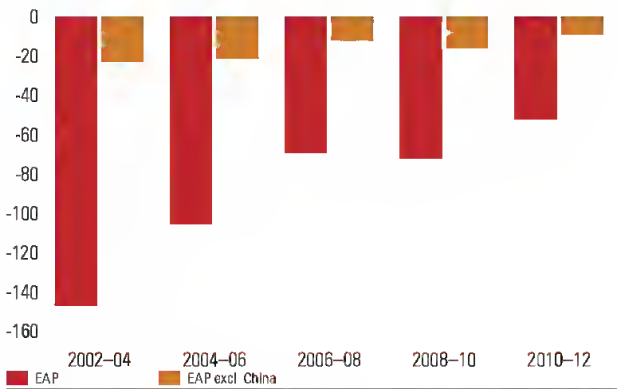
Poverty Headcount Ratio
(This measures the proportion of the population with a standard of living below $2 a day measured in constant 2005 PPP prices)



Sources: PovcalNet and World Bank staff calculations
Note: Poverty estimates from PovcalNet are used to generate the poverty projections. PovcalNet provides data until 2008. The projections are based on the latest poverty estimate, the elasticity of growth, which is defined as a function of the change in poverty relative to the change monthly per capita income/consumption during 2005 and 2008, and real GDP per capita growth or growth projections.

Figure 16. ...but at a slowing pace...

reduction in number of people living on less than $2 a day (million)



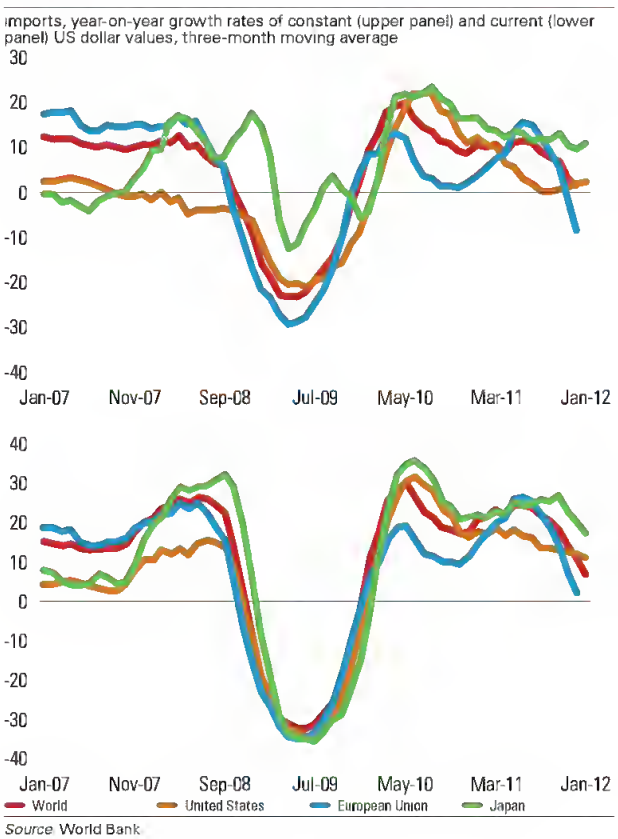
Source: PovcalNet and World Bank staff calculations

living under US$1.25 a day and the region has reduced poverty faster than in any other part of the world.[5] However, the large number of people escaping poverty in China accounts for a big part of this reduction, as the headcount of those living on less than US$2 is ten percentage points higher in the region outside of China. Moreover, the gains in poverty reduction across East Asia, including China, may be expected to slow as the rate of poverty reduction tends to become incrementally less sensitive to economic growth as countries grow wealthier (Figure 16).

East Asian exports slump on falling G-3 external demand…

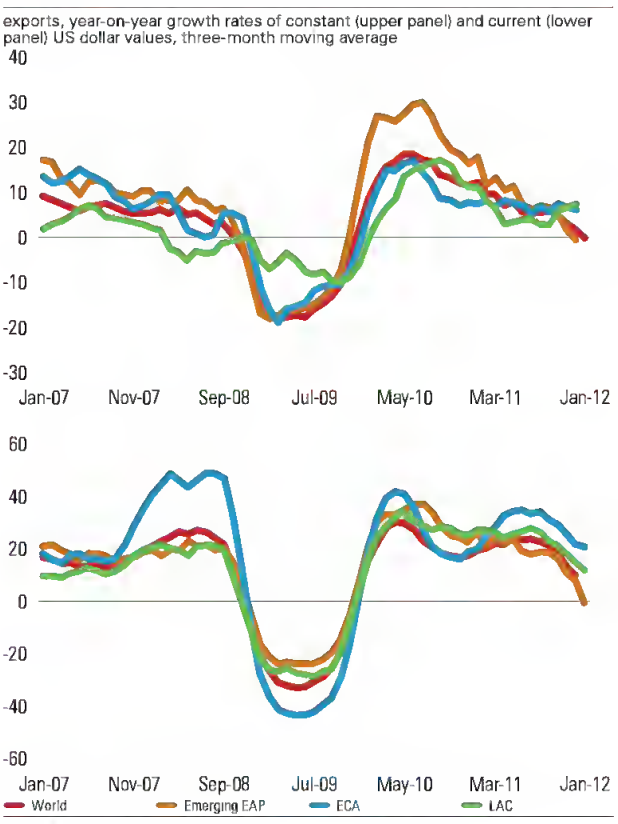
After rebounding sharply in 2010, emerging East Asia's exports have slowed considerably since mid-2011. Slower economic growth globally, and weaker external demand by the EU (Figure 17), US, and Japan (the market for 43 percent of emerging East Asia's direct export shipments[6]) dragged down the region's export growth rate to 4.7 percent in constant US dollar terms last year, from 23.6 percent in 2010 and an annual average 13.2 percent in the years before the crisis in 2005–07. The region's export performance, which lagged that of the Europe and Central

Figure 17. European Union imports, a third of world total, have deteriorated sharply since mid-last year



Source: World Bank

Figure 18. Emerging EAP exports have lagged the global total recently



Source: World Bank

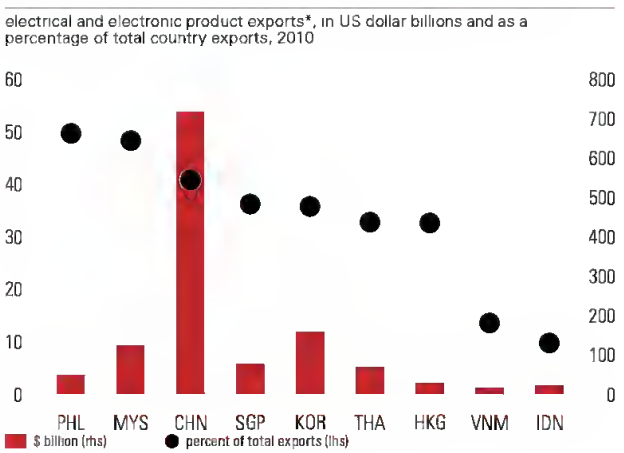
5 United Nations (2011) *The Millennium Development Goals Report.*

6 It is estimated that the European Union, United States, and Japan receive a much larger share of East Asia exports --- as much as 61 percent rather than 43 percent of East Asian exports --- if the final destination of intra-regional trade in parts and components that are part of global and regional production networks were considered. See ADB (2007), "Uncoupling Asia: Myth and Reality" in "Growth Amid Change", Asian Development Outlook, March 2007, Manila.

Asia (6.7 percent export real growth rate) and Latin American (5.1 percent) regions last year (Figure 18), will likely weaken further as growth slows in China; the destination for 18 percent of the region's commodity exports. Customs data through April show that current growth in trade is a fraction of those a year ago. China's exports crawled to a 6.9 percent growth rate in January-April from 27.4 percent in the same period a year ago, exacting second-round effects on parts and components exporters throughout the regional manufacturing value chain. China's imports came to a virtual standstill in April, barely rising 0.3 percent, affecting suppliers to the China's domestic economy as well. Overall exports by Indonesia, Malaysia, the Philippines, Thailand and Vietnam slowed to a 6.8 percent growth rate in the first quarter from 25.4 percent a year ago, and by the newly-industrializing economies, to 1.4 percent from 25.1 percent.

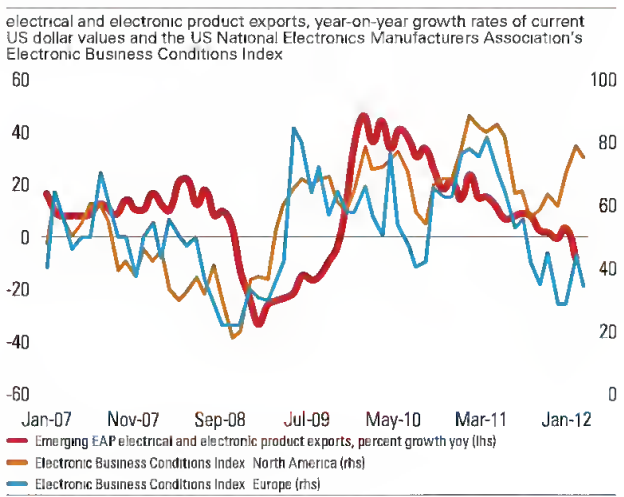
Trade in electrical and electronic products—almost 40 percent of the region's exports globally as well as intra-regionally—accounted for much of the weakness in 2011. In particular, exports of computers and office machines remained almost flat, growing 2.4 percent in nominal value terms in 2011 compared to an average 15.1 percent in 2005–06. Electrical machinery and appliances and telecommunications apparatus and equipment performed marginally better, but still at rates 40–60 percent of their pre-crisis average. Over two-fifths of the region's electronics exports are shipped directly to the G-3, about one-fifth to the EU alone. Another two-fifths are traded intra-regionally, a substantial portion of that—more than a third[7]—as parts and components that feed into regional and global production networks. Weakness in the G-3 final product markets therefore dampens intra-regional trade in this sector as well. The Philippines, the economy most dependent on electronics exports (Figure 19), posted the region's poorest export performance last year. The sector's weakness may persist this year on continued softness in the European electronics market (Figure 20).

Figure 19. Overall Philippine exports dropped 7 percent last year as electronics exports contracted 23 percent



Source U N COMTRADE
Note *Computers and office machines (SITC 75) + Telecommunications apparatus and equipment (SITC 76) + Electrical machinery and appliances (SITC 77)

Figure 20. Surveys point to a continued weakness in the EU electronics business a half-year forward



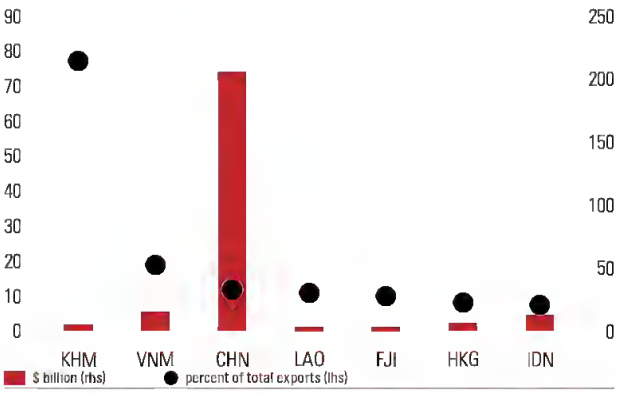
Source CEIC and Haver Analytics

Apparel and textiles—about 10 percent of the region's total exports—fared much better than electronics, growing 17.3 percent in nominal value terms in 2011, compared with 21.3 percent in 2010. China's apparel

7 World Bank (2009) "Transforming the Rebound into Recovery", *East Asia and Pacific Economic Update*, Volume 2

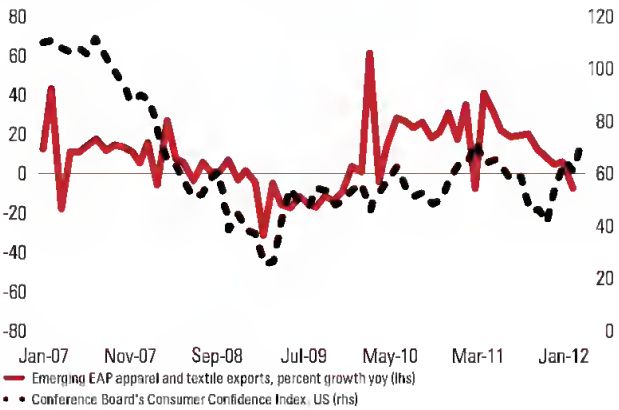
and textile exports, three-quarters of the regional total, expanded 20.5 percent last year, which is about the average rate from before the crisis in 2005–07. The region's principal low-income producers have much lower textiles trade volumes, but the sector is more crucial for their exports (Figure 21). Vietnam reported a 25.3 percent rise in total apparel and textile exports last year and Cambodia, 31.7 percent[8]. A recovery of consumer confidence in the US, the market for one-fourth of the region's exports, is likely to support the region's apparel exports in the near term (Figure 22).

Figure 21. Apparel and textiles have an oversized role in Cambodian trade



Source U.N. COMTRADE
Note *Apparel and clothing accessories (SITC 84) + Textile fibers (SITC 26) + Textile yarn and fabrics (SITC 65)

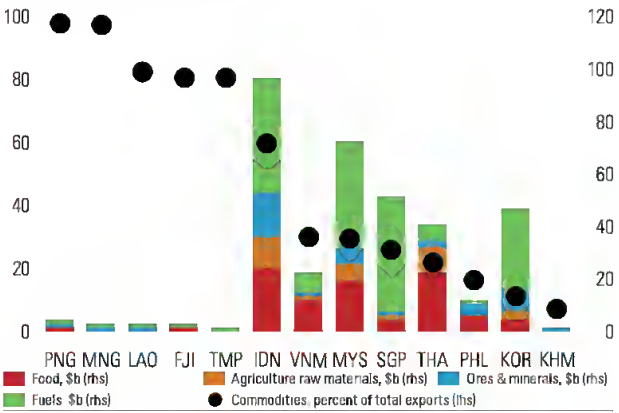
Figure 22. A recovery in US consumer confidence likely to support the region's apparel exports



Source CEIC

Commodity exports—just under 14 percent of the region's total—provided some impetus to emerging East Asia's trade performance last year, supported by high prices. Indonesia, Malaysia and Vietnam earned US$36.2 billion from crude oil and petroleum product shipments, 26 percent higher than in 2010 (although on lower volumes across the board), and close to the US$38.9 billion earned when oil prices peaked in mid-2008. Singapore and Korea combined for US$161.5 billion in petroleum product export receipts, 49 percent higher than in 2010. Mongolia (Figure 23) nearly doubled its mineral exports from US$2.2 billion in 2010 to US$4.3 billion last year, due to both an increase in copper and gold prices as well as expanding shipments of coal to China. Energy and metals prices corrected in April (Figure 24) and projections are that

Figure 23. Commodity exports are outsized for Mongolia and many small economies in the region



Source U.N. COMTRADE
Note *Food (SITC 0 + SITC 22 + SITC 4) + Agricultural raw materials (SITC 2, excluding 22, 27 and 28) + Ores and metals (SITC 27 + SITC 28 + SITC 68) + Fuels (SITC 3)

8 Recent research shows that the abolition of the MFA quotas in 2005, while hugely beneficial to China, has not been deleterious to Cambodia or Vietnam as earlier feared. Rather, Cambodia has increased its share of the global market from 0.5 percent in 2004 to 0.7 percent in 2010 and Vietnam from 1.1 percent to 2.0 percent, the latter because of policies that promoted apparel sector upgrading (Lopez-Acevedo and Robertson (2012), *Sewing Success? Employment, Wages and Poverty Following the End of the Multi-Fibre Arrangement*, World Bank, Washington DC).

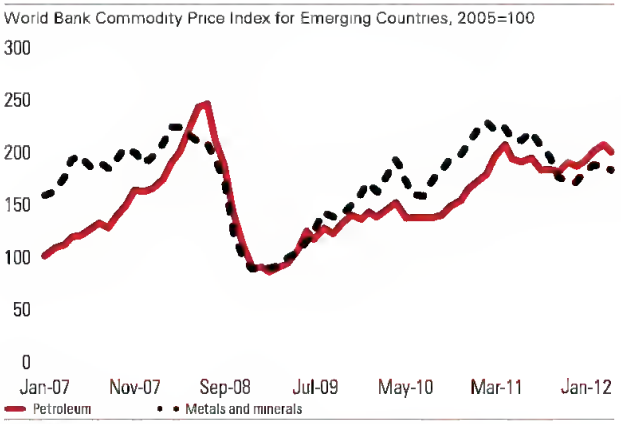
they will be 4.6 percent and 6.2 percent lower this year than last in current dollar terms (0.1 percent and 1.8 percent in constant dollar terms) as the global economy slows, near-term economic prospects remain uncertain, and global supplies improve.

... and may weaken further from a slowdown in China

Chinese imports have buttressed global trade during the crisis, declining the least among major importers during the downturn in 2009 and gaining robustly during the recovery in both 2010 and 2011 (Figure 25). At the end of last year, Chinese imports comprised 10.3 percent of global imports, up from 7.2 percent in 2007 and close to triple the 3.7 percent at the beginning of the decade in 2000. China's growth during the crisis played a role in supporting international commodity prices (Box 1). At the same time, the rest of emerging East Asia has increasingly integrated with China, sending 21 percent of its exports to the mainland in 2010, from 8.8 percent in 2000. The extent and pattern of dependence on the Chinese market, however, varies across countries (Figure 26). Mongolia ships practically all of its commodity exports (which themselves comprise 89 percent of its total exports) to China. The Philippines sends 27 percent of its electronics exports (electrical and electronics are around 50 percent of all Philippine exports) to China. None of the Pacific Island economies, however, other than Solomon Islands, has any significant trade exposure to China.

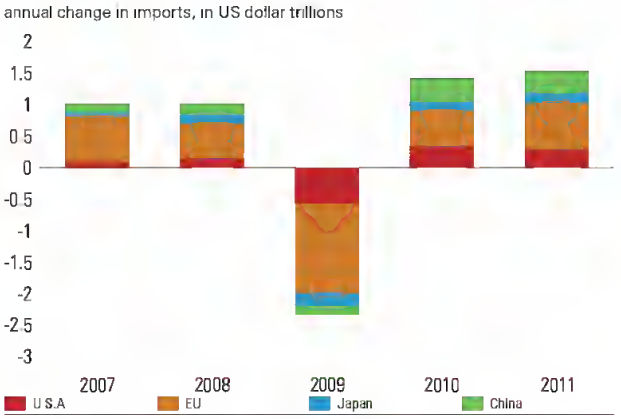
A cyclical adjustment in China will likely cap the gains recently made by many commodity and industrial material suppliers in the Chinese market. Chinese imports for the domestic market skyrocketed during the recovery, doubling from US$532 billion in 2009 to US$1.0 trillion in 2011 (Figure 27), as the government responded to the global financial crisis with aggressive fiscal and monetary stimulus. A winding down of the stimulus measures, coupled with base effects, as well as efforts to cool down the property market, likely will dampen China's non-processing import growth rates this year and next. While non-processing imports are

Figure 24. Energy prices gained 30 percent last year, and metal and mineral prices, 14 percent



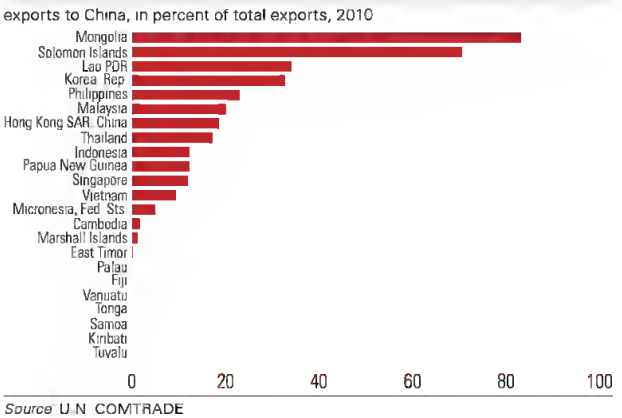
Source: World Bank

Figure 25. Increases in overall Chinese imports in 2011 almost matched that in 2010



Sources: World Bank and CEIC

Figure 26. Some small economies exceed the region's average trade exposure to China



Source: U.N. COMTRADE

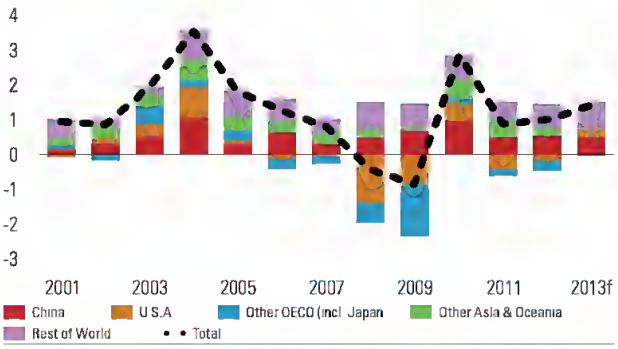
Box 1. A slow-down in Chinese demand would dampen commodity prices

As a global center of production, China has become an increasingly important source of commodity demand. In 2000, most of its exports were consumption goods, yet by 2009 capital goods accounted for about half of its exports (IMF, 2011). These goods tend to require larger quantities of natural resources as production inputs, explaining part of the surge in its appetite for commodities. Another source of Chinese commodity demand is investment in infrastructure and housing as the country moves up the income ladder. Demand is particularly strong for energy and metals. Chinese consumption of liquid fuels is a major driver of global energy demand (Figure 1). China accounted for 6.4 percent of global demand in 2000 but by 2011 it had almost doubled to 11.2 percent. The IMF's most recent energy forecasts anticipate that Chinese energy consumption is going to double by 2017 and triple by 2025 from its 2008 level.

Given its weight as a major global consumer of raw materials, China has a considerable effect on commodity prices. Jenkins (2011) estimates that, for the period 2002 to 2007, China's growth in demand for oil (at 42.1 percentage points above global demand growth) translated into an increase in global oil prices in the range of 10.8 percent to 27.1 percent. Between 2001 and 2011, China's consumption of metals soared by 350 percent.[9] Its effect on global prices is particularly pronounced in copper, tin, aluminum, and nickel (Figure 2).[10] However, although pressure on commodity prices from China has intensified significantly, it does not yet reach the same levels as pressures from the US.

Box Figure 1. China's appetite for energy is a key driver of global consumption of liquid fuels

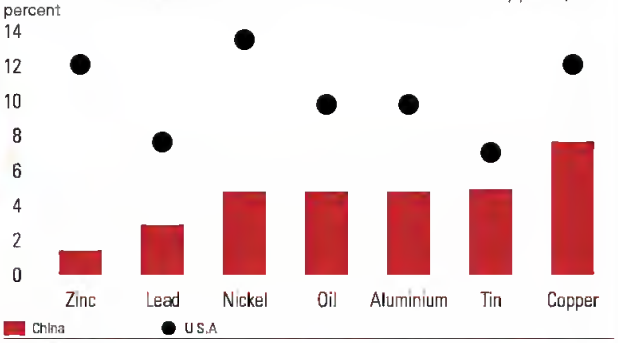
contributions and year-on-year growth, in percent



Source: Energy Information Administration

Box Figure 2. China's effect on commodity prices is considerable—yet it still trails the US

contribution of variation in China's demand to variation in commodity prices, in percent



Source: IMF (2011)
Note: 4-quarter variance decomposition shock of one standard deviation in industrial output, showing the contribution of variation in China's demand to variation in commodity prices. Data for 2000-2010.

As China's growth outlook moderates, global commodity prices will ease. The persistent fragility of the global economy still dampens demand for Chinese exports. Domestic investment is likely to slow as tighter credit conditions curb activity in residential real estate and manufacturing. Moreover, restocking in the aftermath of the financial crisis of 2009 is coming to an end as Chinese companies have rebuilt their inventories. Jointly, these factors are likely to reduce demand for many commodities; indeed, prices have started to stabilize after their most recent rally (Figure 24 in the text). They remain, however, at high levels and may even fall slightly.

How will weaker commodity prices affect the rest of developing East Asia? Commodity exporters in the region will see export and fiscal revenues fall. These twin declines will especially affect metals exporters, most notably Mongolia, but also oil exporters, such as Malaysia. On the other hand, weaker pressures on energy prices will benefit consumers, and ease the burden on the public purse in countries where subsidies are in place to cushion hikes in transport costs. It is important to bear in mind that while Chinese demand for commodities related to export manufacturing and investment is weaker, private consumption growth remains strong. This will support prices for imports such as palm oil, vegetables, fish and meat, rubber for the production of tires, and other consumption-related commodities.

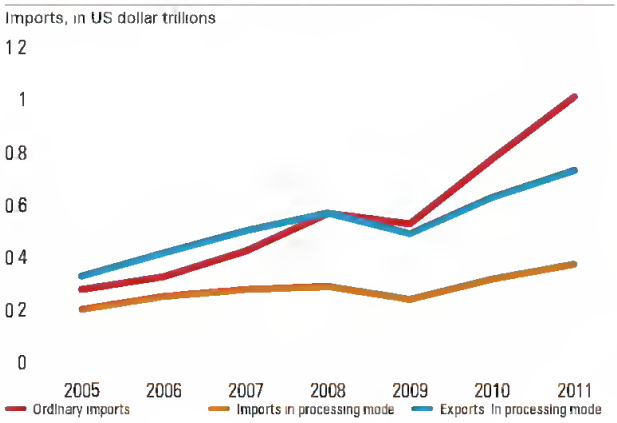
---

9 Source: World Metal Statistics.

10 Lu and Li (2009) estimate that the average ratio of China's contribution to world incremental consumption between 2001 and 2007 was 51 percent for copper and 56 percent for aluminum. They also document a high contribution for iron ore at 89 percent.

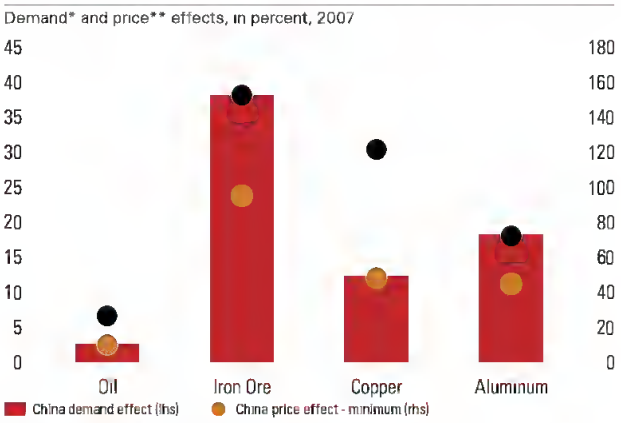
not projected to deteriorate to the extent processing imports have, they will likely grow at slower rates of 15 percent year-on-year in 2012 and 2013. For commodity suppliers to the Chinese market, including the countries of emerging East Asia, this would imply both lower Chinese commodity import volumes and lower international commodity prices (Figure 28).

Figure 27. China's non-processing imports remained robust in 2011



Source: CEIC

Figure 28. Chinese demand has driven copper prices higher by at least 40 percent



Source: Jenkins (2011), "The China Effect on Commodity Prices and Latin American Export Earnings", CEPAL Review 103, April 2011
Note: *China demand effect = how much greater global demand was in 2007 than it would have been had demand by China grown at the same rate as the rest of the world's in 2002–07.
**China price effect = how much higher the global price was in 2007 than it would have been had demand by China grown at the same rate as the rest of the world's in 2002–07

Portfolio flows revive, while bank credit is holding up

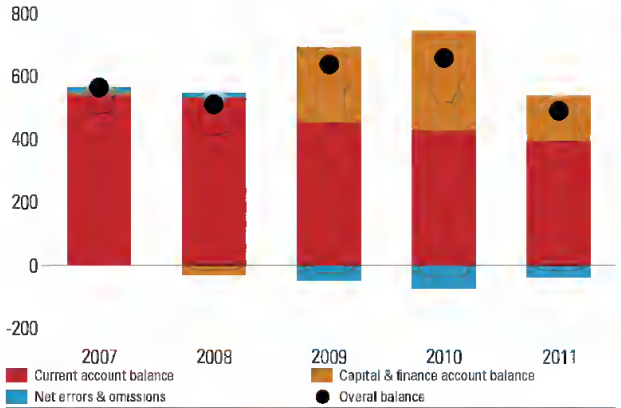
Overall capital flows to emerging East Asia fell in net terms last year. The capital and financial account, net of errors and omissions, contracted from US$238 billion in 2010 (2.5 percent of regional GDP) to US$102 billion last year (0.9 percent of GDP) (Figure 29). Portfolio inflows into the region shrank (Figure 30) and FDI inflows remained essentially stable, as they did in most years, except during the downturn in 2009.

This year, portfolio capital flows have started to return. Investors bought into US$10.8 billion of emerging East Asian equity funds in the first quarter this year, after selling off US$12.8 billion in the third and fourth quarters last year, taking their holdings to US$439.2 billion in mid-April (Figure 31). They also purchased US$2.7 billion of emerging East Asian bond funds in the first quarter, more than twice the US$1.1 billion in the same period last year, keeping their holdings at US$47.1 billion in mid-April. The pattern is roughly similar across most other developing regions but contrasts sharply with that in the advanced economies. Investors withdrew US$45.7 billion from advanced economy equity funds in the second half last year and US$1.5 billion in the first quarter this year.

Bonds are thriving. Developing East Asia floated US$46.6 billion of new bonds in 2011, up from US$38.9 billion in 2010. Issuances of new bonds by China and by the other the middle-income countries have been robust. New issuances of US$19.0 billion in January-March this year exceed those in the same period last year by nearly half (Figure 32). Issues of new equities have disappointed, however, both in the region and globally. New share sales by developing East Asia of US$33.2 billion last year were half the yearly volume in 2007, 2009, and 2010. Share sales by all developing economies amounted to US$74.8 billion in 2011, two-thirds the level the year before.

Figure 29. After rising in 2010, net capital flows into emerging East Asia declined last year

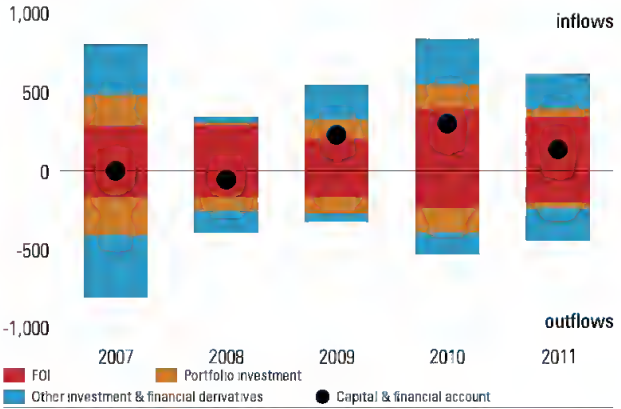
Balance of Payments, in US dollar billions



Sources: IMF, Haver Analytics, and CEIC

Figure 30. ...led by foreign portfolio investment in the region's risk assets

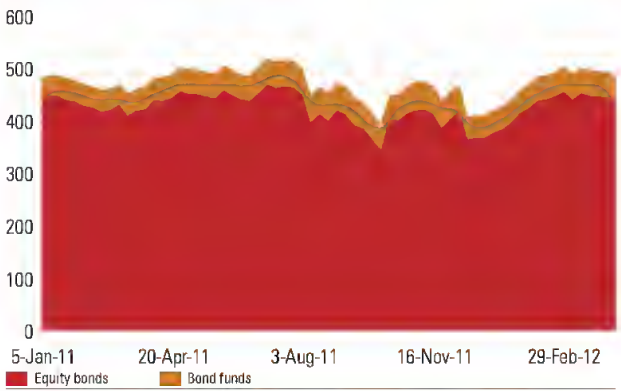
Capital and Financial Account, by category, in US dollar billions



Sources: IMF, Haver Analytics, and CEIC

Figure 31. Investors return to East Asian and other emerging market funds

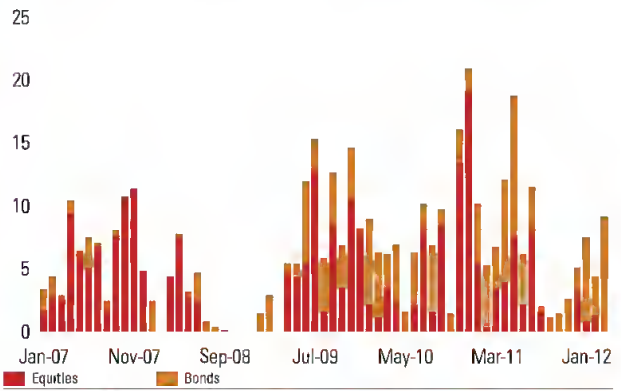
estimated investment in emerging East Asia equity and bond mutual and exchange-traded (ETF) funds, in US dollar billions



Source: EPFR, via Haver Analytics

Figure 32. Bonds are thriving

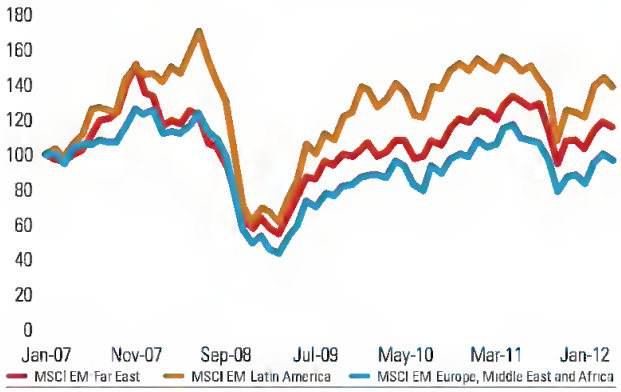
new issuances by developing East Asia of equities and bonds, monthly, in US dollar billions



Source: Dealogic

Figure 33. Equities are cycling back to their post-crisis peaks

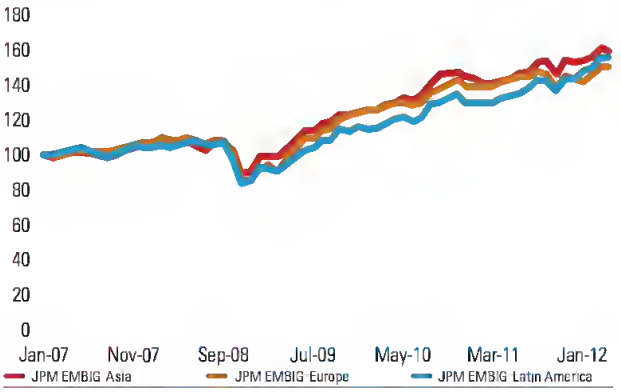
emerging market stock price indices, by region, in US dollar terms, January 2007 = 100



Source: MSCI Inc., via Thomson Datastream

Figure 34. Bond returns are up in the region and elsewhere, helped by low discount rates

emerging market bond total return indices, by region, January 2007 = 100

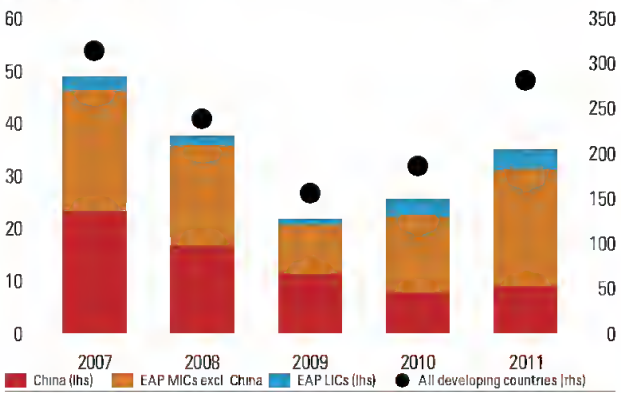


Source: JPMorgan, via Thomson Datastream

Supported in part by foreign buying, stock markets have recovered. The regional composite index is up by a quarter in April from its two-year low in October last year (Figure 33), although its performance continues to lag that of the LAC region, among emerging markets. The performances for individual countries vary: Thailand and the Philippines lead with 23 percent and 15 percent improvements from September to April in free-float US dollar terms and excluding dividends. Fixed-income assets have also performed better recently. The total return index on the region's bonds is 9 percent up in April, from October last year (Figure 34). Vietnam leads with an 18 percent gain from October, followed by Indonesia with 10 percent.

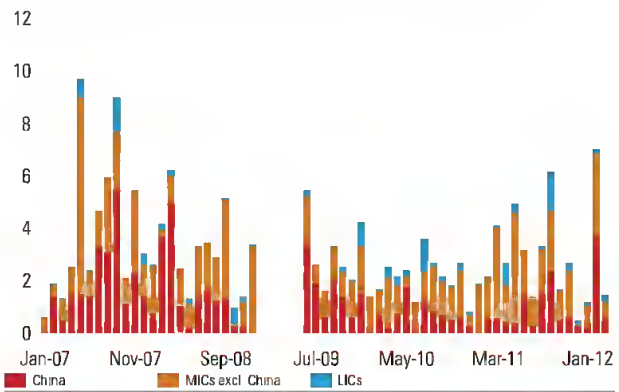
East Asia ducks the trend in syndicated bank lending. After strengthening in the first three quarters last year, international syndicated bank lending to developing countries has been falling. Aggregate syndicated lending to developing countries in January-March is almost 45 percent down from the same period last year. In contrast, in developing East Asia, international syndicated bank lending rose by more than a third to US$34.7 billion in 2011 on significantly higher borrowing by the middle-income countries, particularly Indonesia (Figure 35). The early January-March 2012 numbers for the region also show an improvement over the same period last year, largely due higher borrowing by China and Vietnam (Figure 36).

Figure 35. Syndicated bank loans revived in early 2011



Source: Dealogic

Figure 36. ...but gains this year appear to be less robust



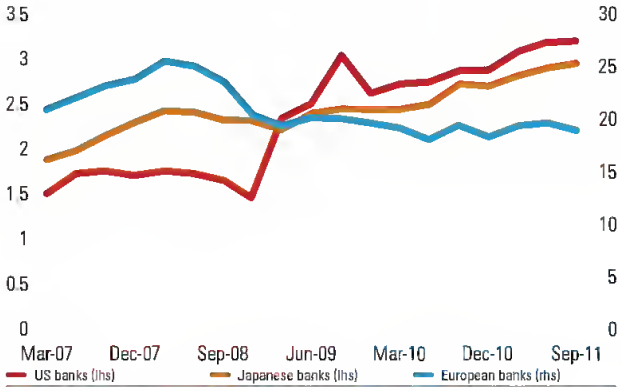
Source: Dealogic

Borrowers globally have been feeling the effects of deleveraging by European banks since early 2008. Consolidated foreign credit outstanding from European banks stood at US$18.9 trillion in September last year, down 25 percent from the pre-crisis peak of $25.5 trillion in March 2008 (Figure 37). Credit outstanding from US and Japanese banks, up a combined US$2 trillion over the same period, has covered only a fraction of the credit contraction by the European banks. In the region, credit outstanding from European banks amounted to US$457 billion or 6 percent of GDP in September last year for developing East Asia and US$1 3 trillion or 13 percent of GDP for emerging East Asia (Figure 38), the latter figure arising from active credit intermediation by Hong Kong SAR, China, and Singapore. Credit from the European banks had been gradually building up in the region since the recovery in 2009, before turning downward again from June to September last year.

Amid the turmoil in the world economy, global foreign direct investment (FDI) inflows managed to rise 17 percent to US$1.5 trillion in 2011, modestly advancing the recovery from 2009. Most of the gains were loaded in the first half of the year, with inflows beginning to slow in the third quarter. Developing economies received half the FDI inflows (roughly the same share as in 2010), driven by greenfield investments rather than cross-border

Figure 37. European banks have been deleveraging globally since March 2008

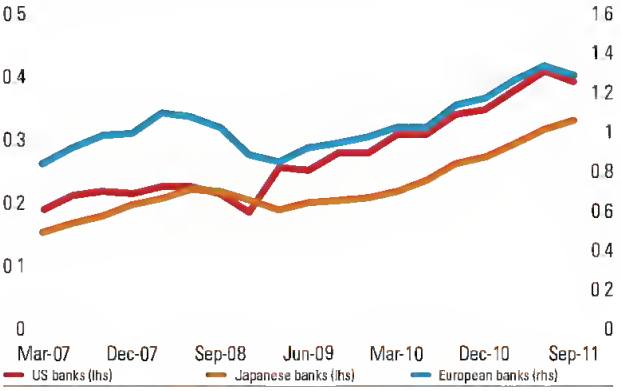
consolidated foreign claims* of BIS-reporting banks on all countries, by nationality of reporting bank, in US dollar trillions



Source: BIS
Note: *Consolidated foreign claims = International claims (cross- border claims in all currencies and local claims in non-local currencies) + Local currency positions of reporting banks' foreign affiliates with local residents + Net risk transfers

Figure 38. ... although, they managed to rebuild their emerging East Asian loan book

consolidated foreign claims of BIS-reporting banks on emerging East Asia, by nationality of reporting bank, in US dollar trillions



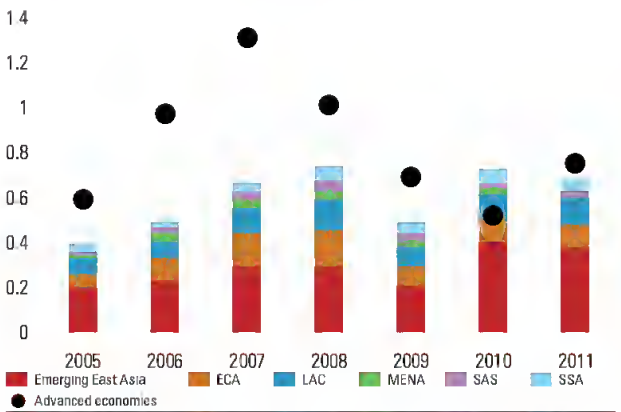
Source: BIS

merger and acquisition (M&A) transactions, the chief mode of FDI inflows into the advanced economies in the past two years. Emerging East Asia led all developing regions with US$387 billion in inflows (Figure 39), roughly 3 percent of regional GDP. As in previous years, China accounted for over half the inflows into the region (Figure 40). At the same time, China added to its FDI abroad, climbing to an average US$54.9 billion in 2010–11, up from US$11.3 billion in 2005. Similarly, Malaysia and Thailand raised their direct investments overseas by a combined US$25.4 billion in 2011, strengthening their role as net FDI investors abroad like Korea and Taiwan, China.

The uncertain outlook in the global economy implies mixed prospects for FDI flows in the year. With M&A announcements weak in the fourth quarter last year, FDI flows to the advanced economies will likely soften further this year, while FDI flows to developing economies may level out or rise only moderately. Nonetheless, most of emerging East Asia is expected to hold up well. In China, FDI project approvals and FDI utilization were roughly

Figure 39. Emerging East Asia netted 43 percent of FDI inflows to developing areas in 2011

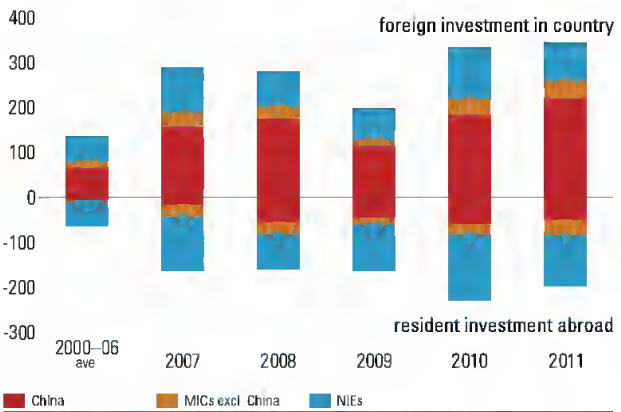
FDI inflows, by region, in US dollar trillions, BOP basis



Source: Haver Analytics and UNCTAD, "Global Investment Trends Monitor No. 8: Global Flows of FDI Exceeding Pre-Crisis Levels in 2011", January 2012

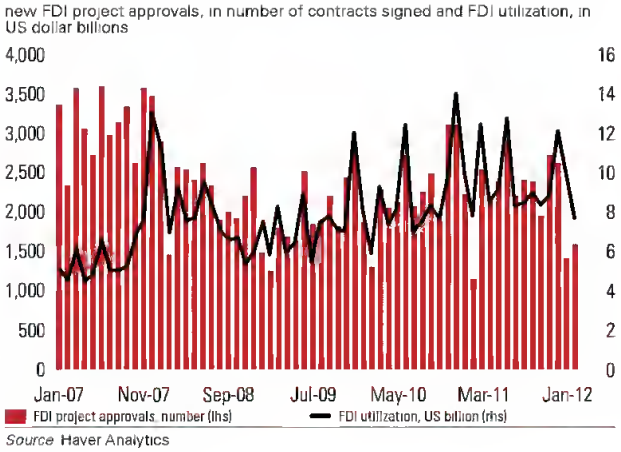
Figure 40. China remains the developing world's largest FDI destination

FDI inflows and outflows to emerging East Asia, by country, in US dollar billions, BOP basis



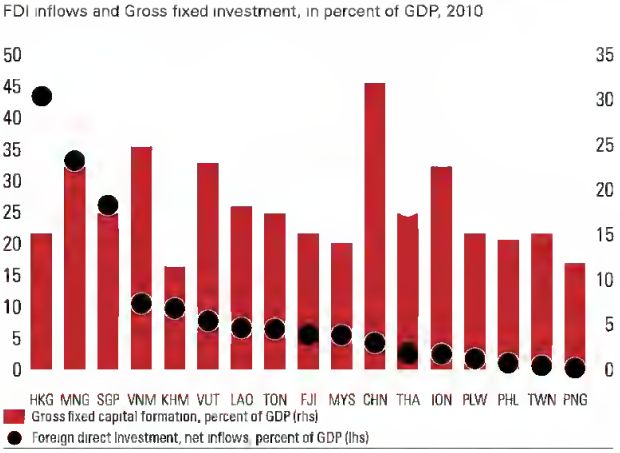
Sources: Haver Analytics and IMF

Figure 41. China approved 384 more new FDI projects last year than in 2010



Source Haver Analytics

Figure 42. FDI flows are 72 percent of fixed investment in Mongolia, 43 percent in Cambodia and 21 percent in Vietnam



Sources World Bank, ADB

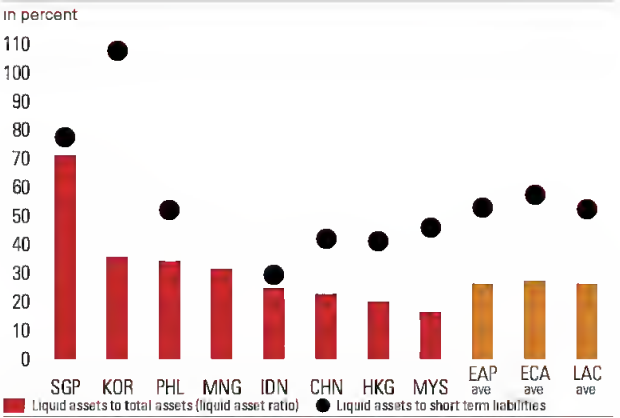
running at last year's pace through February, but have slackened off through March (Figure 41). In Vietnam, the number of foreign investment projects granted licenses and the capital invested in these projects are on a downtrend, numbering half of last year's through March. The impact of any downward revision in global flows will vary, as FDI itself varies in importance across the region. FDI inflows and outflows are high relative to GDP in Hong Kong SAR, China, and in Singapore, the region's offshore financial centers, which intermediate regional and global capital flows. More importantly, FDI inflows are high relative to fixed investment in Mongolia, Cambodia, and Vietnam and low in Indonesia and the Philippines, implying a higher dependence on FDI and a greater risk exposure to FDI flow volatility in the former group of countries (Figure 42). In Mongolia's case, high levels of FDI inflows over the past few years reflect efforts to build a copper mining complex and once this comes closer to completion, FDI inflows should taper off.

The financial sector has been stable but risks are rising

East Asia's banking systems have remained resilient to the ongoing uncertainty in the global economic environment. Compared to those in the Europe and Central Asia and Latin America regions, EAP banks are generally well-capitalized, profitability is high, non-performing loan (NPL) ratios are low, and there do not appear to be any significant liquidity risks on bank balance sheets (Figures 43–45).

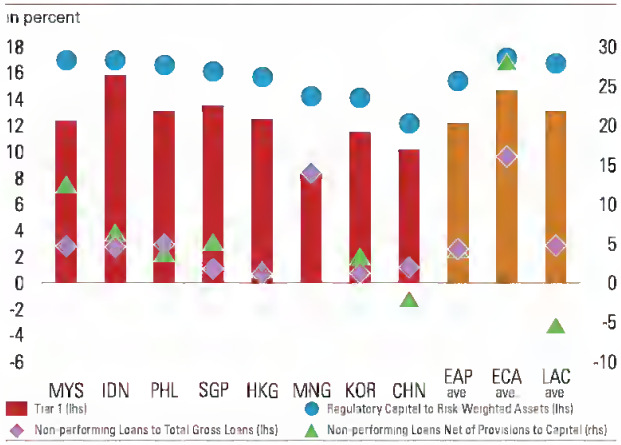
Despite this, challenges remain. Monetary policy is still highly accommodative, and a return to more normal policy could affect the banks. Rapid credit expansion has also started to affect credit quality in some countries.

Figure 43. Liquidity risks are contained in the region



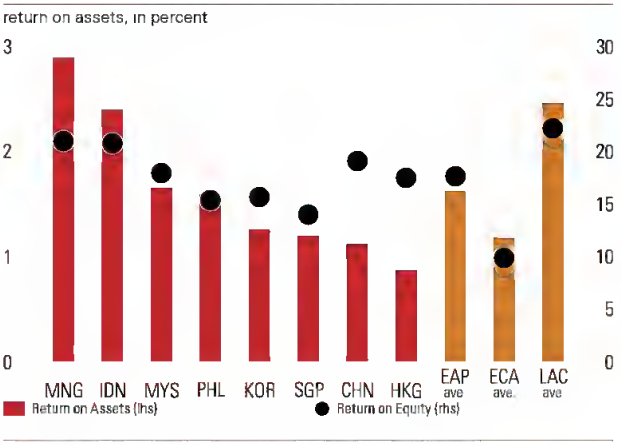
Source Finstats, Bank of Mongolia, World Bank staff calculations
Notes Data is from Q2 and Q3 2011, with the exception of China for which data is from 2010

Figure 44. Bank capital buffers are large and NPL ratios low



Sources Finstats, Bank of Mongolia, World Bank staff calculations
Notes * Data is from Q2 and Q3 2011, with the exception of China for which data is from 2010.

Figure 45. and banks are making healthy returns

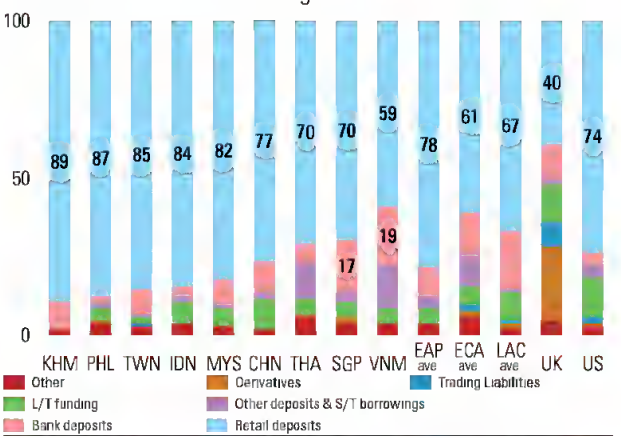


Sources Finstats, Bank of Mongolia, World Bank staff calculations
Notes * Data is from Q2 and Q3 2011, with the exception of China for which data is from 2010

Regional central banks have yet to unwind fully the interest rate cuts made during the 2008-09 crisis and credit is expanding rapidly in a number of countries (see the below section on monetary policy). In Vietnam, although the pace of credit expansion has fallen into the low single digits mainly due to aggressive policy tightening in 2011, past high rates of lending growth have contributed to a deterioration in the quality of bank assets, with exposure to loss-making state-owned enterprises and real estate of particular concern. Banks in Thailand remain financially sound because of the effective credit risk management practices in place. However, the impact of the floods of late 2011 is yet to be fully assessed, with commercial banks expecting NPLs to rise

In China, concerns linger about the legacy of the stimulus in 2009. This was supported through state-directed credit expansion, some of which found its way into the real estate sector. In addition, the use of Local Government Financing Platforms (LGFPs) as key vehicles for credit expansion has raised concerns over credit quality and, more broadly, over medium-term financial stability in China. Tighter policy is helping steer a soft landing in real estate markets, but stress tests indicate that although the financial system is capable of absorbing isolated shocks, a combination of adverse concurrent developments including deteriorating asset quality and sharper real estate correction, could put considerable stress on China's financial sector.[11]

Figure 46. Bank in East Asia rely much less than other countries on wholesale markets for funding



Sources BankScope World Bank staff calculations LAC countries consist of Argentina, Brazil, Chile, Peru, Paraguay, Uruguay and Mexico ECA countries comprise Bulgaria, Czech Rep. Estonia, Hungary, Latvia, Poland, Slovenia and Slovakia 2011 Data on the largest ten banks (by asset size) was used

Banks in East Asia are generally less reliant on wholesale funding markets, although exposures are high in some economies. On average, retail

11 IMF (2011), "People's Republic of China Financial Sector Stability Assessment", Washington DC

deposits account for 77 percent of total liabilities in the region, much higher than in ECA and LAC. But there are large interbank exposures in Vietnam and Singapore amounting to nearly one- fifth of banking liabilities (Figure 46) and, while important for helping banks manage liquidity, they also indicate the potential for systemic risks in case of stress in wholesale markets. In Vietnam, these exposures reflect difficulties in accessing deposit funding because of caps on deposit interest rates, with banks turning to short term price sensitive funding and other interbank funding to support asset growth.[12] Retail funding is also not without risk if it is mostly short-term—as it is in Indonesia, where the bulk of bank funding comprises short-term deposits with maturities that are less than one month.[13] In addition, liquidity is generally lower than in other countries in the region and is particularly hard for smaller banks to obtain.

12 http://www.fitchratings.com/web/en/dynamic/articles/Vietnam-Bank-Consolidation-Is-Much-Needed-Positive-Step.jsp

13 Over 90 percent of the banks' funding structure is short, with maturities of less than one month and at call. However, the rolling over of short-term deposits has been a common practice since the 1997/8 financial crisis

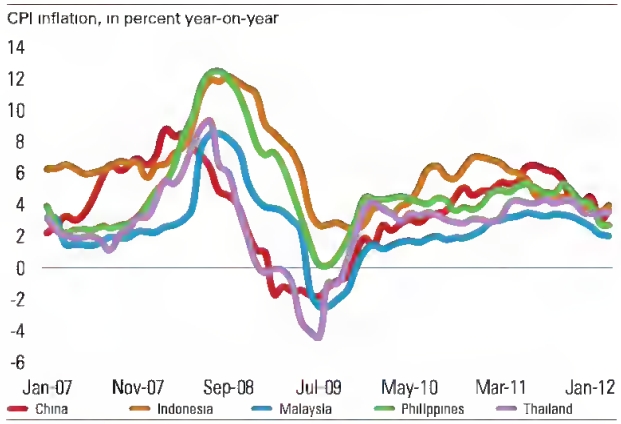
II. Fundamentals are strong, but there are limits to resilience

Most developing East Asian economies are well positioned to weather renewed volatility in global markets. Domestic demand has proved resilient to shocks, most countries have current account surpluses and hold high levels of international reserves, and banking systems are generally well-capitalized. However, there are limits to this resilience. In response to slowing growth and falling inflation, a number of central banks have eased this year after tightening through much of 2010 and the first half of 2011, but overheating concerns may limit further monetary loosening in some countries. While some countries may have space for further fiscal policy stimulus in the event of another major disruption in the external environment, public debt remains above pre-crisis levels in many countries, limiting options for expansionary policy. Commodity exporters, many of which experienced strong growth in 2011, may be particularly vulnerable to a slowdown in China. China's growth has been an important factor in driving up commodity prices. A faster than anticipated slowing of the Chinese economy could trigger an unexpected drop in commodity prices, which could force some commodity exporters to adjust rapidly.

Central banks ease as growth slows and inflation decelerates...

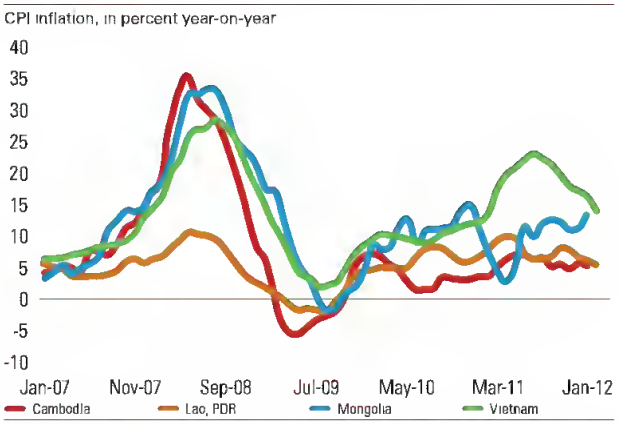
Inflation slows in most countries. Headline inflation slowed to 3.4 percent (year-on-year) in April in China from an average 5.4 percent in 2011 (Figure 47). Consumer prices eased for the sixth consecutive month in Malaysia (to 2.1 percent year-on-year in March from 3.4 percent in September last year), and in Vietnam (Figure 48) for the eight consecutive month (to 10.5 percent year-on-year in April from 23.0 percent in August last year). In the Philippines, consumer price inflation fell to a thirty-month low of 2.6 percent year-on-year in March. In Indonesia, the parliament postponed a fuel subsidy reform program planned for April that would have helped ameliorate the rising fiscal cost of the subsidy but would have also likely added two percentage points to headline inflation in the year. Indonesia's headline rate in April gained 0.6 percent month-on-month, seasonally-adjusted, from March. Mongolia is an exception to the regional trend, with the headline rate rising to 17.3 percent year-on-year in March from an average 9.5 percent last year, prompting a 50 basis-point rate hike in March to 12.8 percent on top of the 75 basis-point rate increase in the second half last year.

Figure 47. Headline inflation has decelerated across the region...



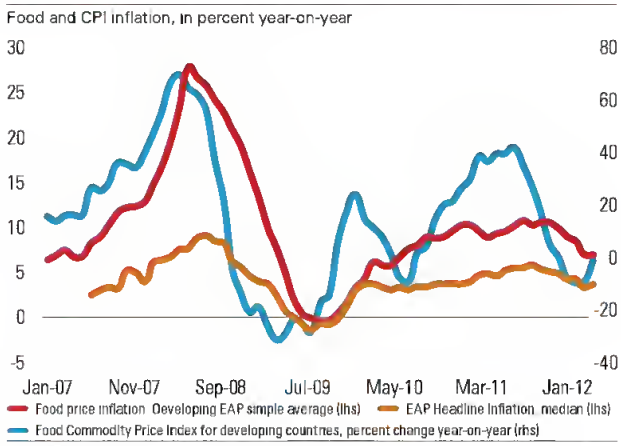
Source: IMF IFS

Figure 48. ...although it remains elevated in some low-income countries



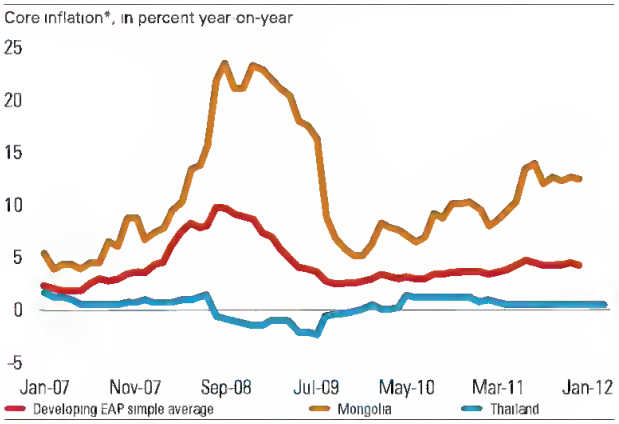
Source: IMF IFS

Figure 49. Lower food price inflation led to lower headline inflation



Source: Haver Analytics and World Bank

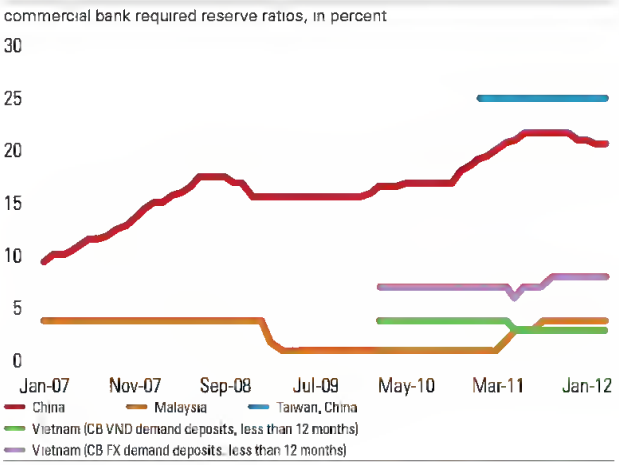
Figure 50. Core inflation has flattened in recent months



Source: Haver Analytics
Note: *Excludes food and energy.

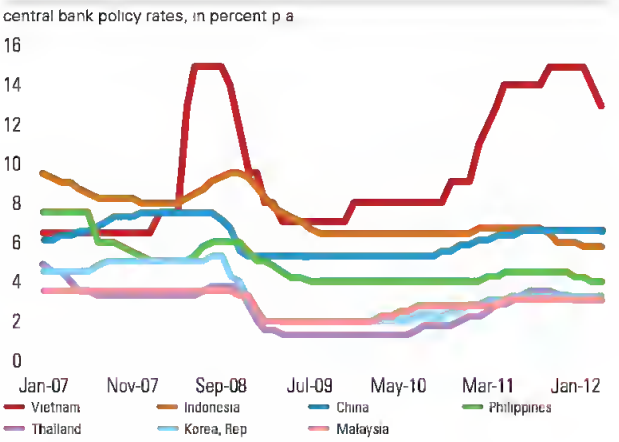
A decline in food price inflation drove down headline inflation. Across most of East Asia, food price inflation has retreated from its annual highs mid-last year (Figure 49). In China, food prices dropped to 7.5 percent year-on-year in March from an average 11.8 percent last year. In the Philippines, adequate supplies of rice, vegetables, and sugar drove the deceleration in the February and March headline rates. In Thailand, the government has sought to address food price risk by administering price controls, and in Vietnam, where food prices have a 40 percent weighting in the headline rate, food price inflation, though still comparatively high, halved from 34.1 percent year-on-year in August last year to 17.8 percent in March. Meanwhile, core inflation has remained stable through most of the region from late last year (Figure 50), in line with global and domestic slowdowns.

Figure 51. Two reserve ratio reductions by China likely added more than RMB 750 billion to interbank liquidity



Source Haver Analytics

Figure 52. In some countries, central banks have started cutting interest rates



Source Haver Analytics

Amid subdued inflation, several central banks have started loosening monetary policy to encourage growth. After tightening through much of 2010 and 2011, China lowered the required reserve ratio (RRR) on bank deposits for the third time in six months to 20.0 percent in May from 21.5 percent in November last year (Figure 51). Indonesia, the Philippines, Thailand, and Vietnam cut their policy rates in the first quarter this year (Figure 52). Indonesia lowered its overnight deposit rate (the FASBI rate) by 50 basis points in January and cuts its benchmark interest rate (the BI rate) 25 basis points in February, citing weak external demand and poor exports. Subsequently, with the decision to allow a potential rise in subsidized fuel prices and move up in inflation, BI has indicated it is adjusting its stance to contain short-term inflationary pressures, for example through liquidity operations and raising rates on medium- and long-term monetary operation instruments. In the Philippines, the central bank added a 25 basis point cut in March to the 25 basis point cut in January to send the overnight reverse repo rate to a historically low 4 percent. The Philippines also reduced its bank deposit RRR from 21 percent to 18 percent in April. Thailand trimmed its benchmark one-day repo rate 25 basis points from 3.25 percent to 3.0 percent in January amid a slow recovery from record floods last year. Vietnam slashed its refinance rate twice, by 100 basis points each in March and April, as growth weakened to 4.1 percent in the first quarter.

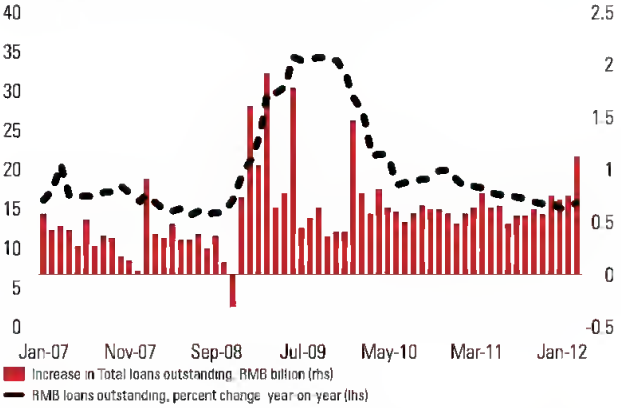
Policy easing has begun to turn the credit cycle in China. Net new RMB lending topped RMB1.0 trillion in March 2012, from about RMB635 billion in March 2011, exceeding market expectations by about one-fifth. Credit growth fell substantially in China in the last two years, slowing to 15 percent year-on-year in 2011 from 33 percent in 2009 (Figure 53), following months of policy tightening. The credit rebound should provide support to investment spending going

forward into the second quarter. In the Philippines and Thailand, which recently cut rates, credit growth has yet to reflect policy easing (Figure 54). In Mongolia, tightening last year has helped reverse credit growth, but clearly much more is necessary.

Lower inflation could enable some countries to undertake reforms in energy pricing and subsidies. China is implementing a market-based mechanism by which retail fuel prices are adjusted when crude oil fluctuates more than 4 percent over a 22-day period. The authorities are also extending nationwide a 5–10 percent value added tax (VAT) on oil and natural gas sales and are considering raising electricity prices for heavy residential consumers after increasing them for businesses late last year. In Indonesia, the government may have missed an opportunity to address the rising fiscal cost of its fuel subsidy and redirect subsidy spending, estimated at US$19 billion in 2011, to more productive uses. Indonesia's reform plan allows a price increase of IDR 1,500 (16 US cents) per liter should the six-month average Indonesian crude oil price rise 15 percent above the US$105 per barrel price assumed in the government budget. Implementation of the plan would have lowered the fiscal deficit from as high as 3.1 percent of GDP this year to 2.5 percent of GDP, assuming oil prices stayed at US$120 per barrel. With 40 percent of the subsidy going to the richest 10 percent of households, the execution of the plan would have also allowed redirecting spending to development needs including education and infrastructure.

Figure 53. Policy easing lifted credit growth in China in March

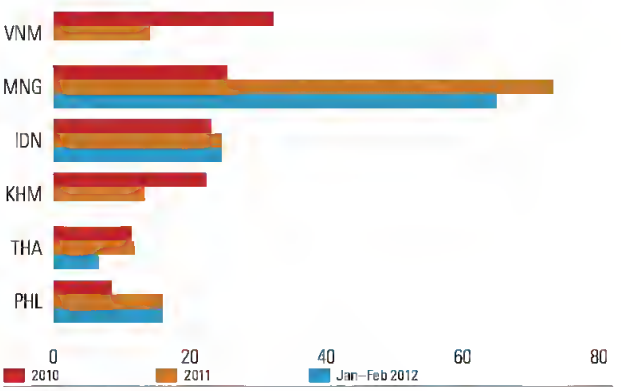
Bank RMB loans outstanding, year-on-year percent change, and Bank total loans outstanding, month-on-month increase in RMB billions



Source IMF IFS

Figure 54. Credit risks are emerging in countries, particularly in Mongolia where lending is growing at a much faster pace than in the rest of the region

Bank total loans outstanding, year-on-year percent change



Source IMF IFS

...but upside risks to inflation cannot be overlooked

Oil price shocks pose upside risks to inflation. Even as the region's monetary authorities seek to advance growth with policy loosening, inflation risks cannot be overlooked. Energy prices pose such risk, considering the recent run-up in global oil prices and the potential for an oil price shock given current geopolitical tensions. China raised gasoline and diesel prices by 3.3 percent and 3.6 percent in February and by 7 percent and 7.8 percent in March. Vietnam raised fuel prices in March, triggering a wave of transport fare increases. The government is now under pressure to allow adjustment in gas, coal and electricity prices as well. The Philippines hiked transport (jeepney) fares in March after petroleum firms increased pump prices. The energy pricing reforms in China and the subsidy reforms in Indonesia, should they be implemented, will also pose inflationary risks, although the direct impact of lowering subsidies should be temporary. Oil futures have tumbled recently, helped in part by renewed Euro zone worries, the mid-April talks between Iran and the six world powers about Iran's nuclear program, and the earlier-than-scheduled

reversal of the US Seaway pipeline that delivers crude oil to the Gulf Coast refineries. But volatility remains and the potential for a significant supply disruption looms large as US and EU sanctions against Iran come into effect in the coming months.

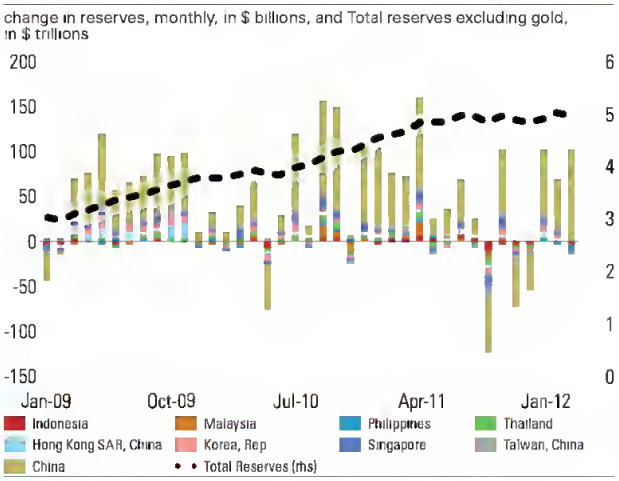
An uptick in activity, aided by accommodative monetary policies, also poses an upside risk to inflation, so policy-makers should be prepared to reverse recent easing. In some countries, inflation rates, while they have eased, are at the high end of explicit or implicit target ranges. The Philippines' 4.8 percent average inflation rate last year was at the top of the central bank's 3–5 percent inflation target. China set a target of 4 percent this year, against which April inflation stands at 3.4 percent. Vietnam is aiming for a less than 10 percent inflation rate this year, but the April rate is running at 10.5 percent. In Mongolia, more tightening is clearly needed with the inflation rate racing to 17.3 percent in March on an average 60 percent year-on-year credit growth in the first quarter. Overall, the region's authorities should remain flexible to shift monetary policy gears should growth gain traction and inflationary pressures build up.

A revival in capital flows may pressure exchange rates again

Reserve buildup returns. Emerging East Asia drew down reserves starting mid-last year, as capital flows either weakened or reversed, while current account surpluses narrowed. International reserves in non-China emerging East Asia declined by US$30.7 billion in the third quarter, and in China, by US$20.2 billion in the fourth. The region, however, has since resumed accumulating reserves as capital flows have revived. China added US$102 billion to reserves in the first quarter, and non-China emerging East Asia, US$38 billion (Figure 55).

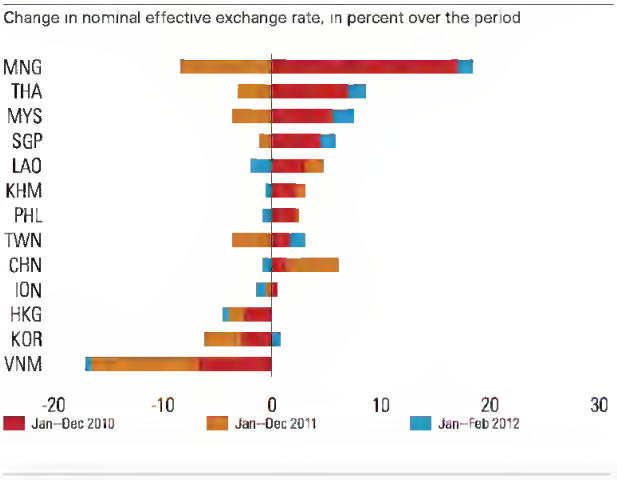
Currencies could return to an appreciating path. Weaker global trade and higher global risk aversion weighed down on currencies last year. Many developing East Asian currencies depreciated or only weakly appreciated in the year, dissipating the nearly uniform and strong appreciation posted in 2010 (Figure 56). While early 2012 data show that most currencies may be set to return to an appreciation path, it will most likely be the case that currencies will be volatile in the immediate term, weakening or strengthening with rising or falling tail risk in Europe.

Figure 55. Total reserves topped US$5 trillion at end-March



Source Haver Analytics

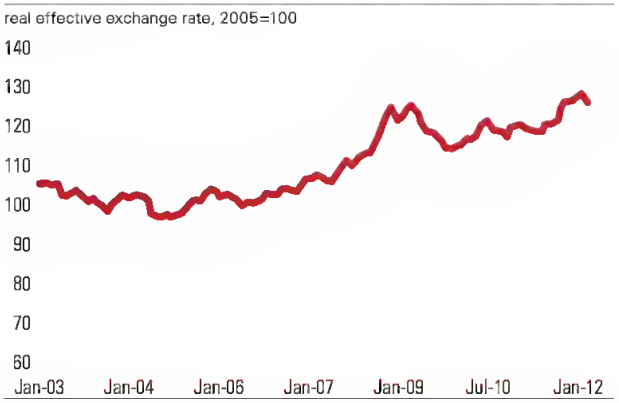
Figure 56. Most of the region's currencies depreciated last year after rallying in 2010



Source Haver Analytics

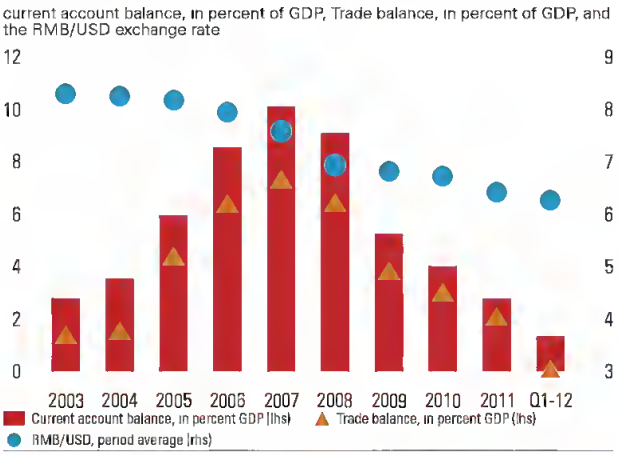
China's shrinking current account surplus recasts questions around exchange rate valuation. Among the region's currencies, the RMB strengthened last year, as it did in 2010. Over the last ten years, the RMB has appreciated 20 percent in real effective terms (Figure 57). The current account surplus, however, which trebled between 2003 and 2007 and topped 10.1 percent of GDP in 2007, has fallen steeply to 2.7 percent of GDP in 2011 (Figure 58), and may likely stay down in the next few years as China rebalances amid weak global demand. A current account surplus below 3 percent of GDP seems to suggest that the real value of the RMB is closer to equilibrium than it was in the past decade, when the country increased the flexibility in the exchange rate. Recently, the authorities further increased the daily trading band of the RMB to 1 percent each way, and the RMB has been trading on the weaker side of the central rate. On the other hand, it is not clear whether China's external surplus will remain in check once global growth revives.

Figure 57. The real value of the RMB has appreciated 20 percent from January 2003 to January 2012



Source IMF

Figure 58. China's current account surpluses have come down considerably



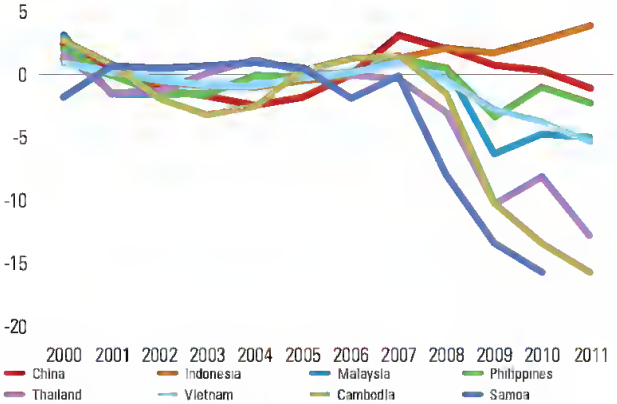
Sources Haver Analytics

Meanwhile, China continues to take additional steps aimed at eventually attaining the convertibility and internationalization of the RMB. Most initial measures promoted the use of the RMB for trade invoicing and settlement, starting with the mid-2009 experiment allowing companies in Shanghai and Guangdong to settle cross-border trade with Hong Kong SAR, China, Macau SAR, China, and ASEAN countries in RMB. More recently, China has also been actively promoting the use of the RMB for international investment. Late last year, China entered into an agreement with Japan allowing the direct exchange of the RMB and the yen without the use of US dollars. Recently, as authorities more than doubled the amount that qualified foreign institutional investors (under the QFII program) can invest in the onshore capital market from US$30 billion to US$80 billion, they also tripled the total amount of RMB that foreign investors can raise in Hong Kong SAR, China for investment back in the mainland from US$3.2 billion to US$11.2 billion.

Fiscal policy needs to walk a fine line

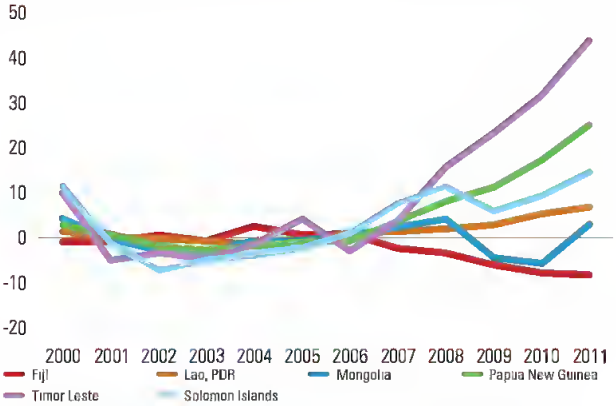
Fiscal policy has been balancing support for short-term growth and concerns over medium-term sustainability. Changes in the fiscal stance in 2011 were less driven by concerns for short-term growth prospects, as previous rounds of fiscal stimulus in response to the crisis have required a more cautious stance in some countries. Notwithstanding a growing output gap in most manufacturing exporters, most tightened their fiscal position (Figures 59 and 60). This contrasts with some commodity exporters, most of whom saw their output gap tighten, but despite rising revenues, saw their fiscal position deteriorate (Figures 61 and 62).

Figure 59. Output gaps for manufacturing exporters generally worsened in 2011...



Sources: World Bank development indicators and staff calculations. Output gaps are defined as the percent difference between potential GDP and actual GDP, where potential GDP is calculated by extrapolating the 2000–07 real GDP growth rate to 2008–11

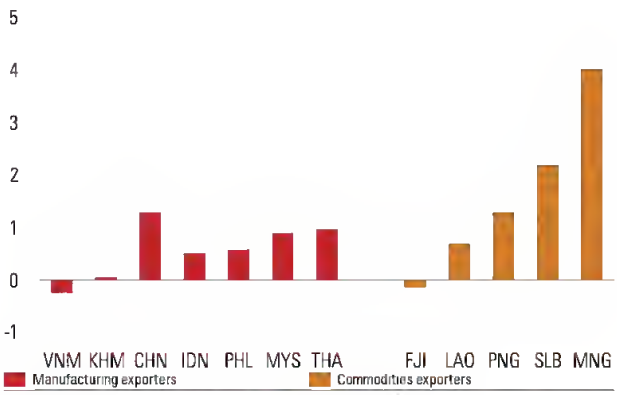
Figure 60. ...while improving for most commodities exporters



Sources: World Bank development indicators and staff calculations. Output gaps are defined as the percent difference between potential GDP and actual GDP, where potential GDP is calculated by extrapolating the 2000–07 real GDP growth rate to 2008–11

Figure 61. Revenue gains in 2011 were therefore lower in the manufacturing countries and...

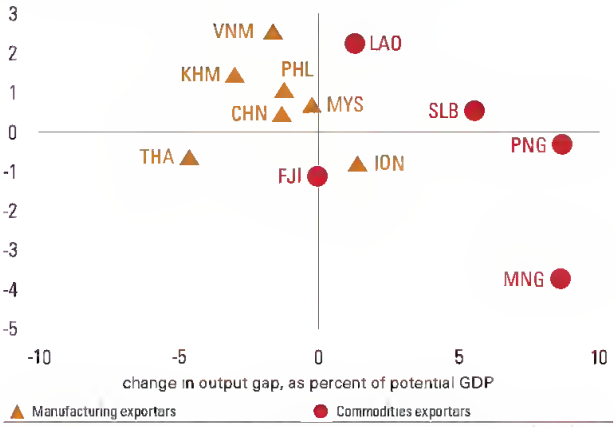
change in revenues, from 2010 to 2011, as share of GDP



Sources: Government accounts and World Bank staff estimates

Figure 62. ...yet the fiscal position of several manufacturing countries became tighter in 2011

change in primary balance, from 2010 to 2011, as share of GDP

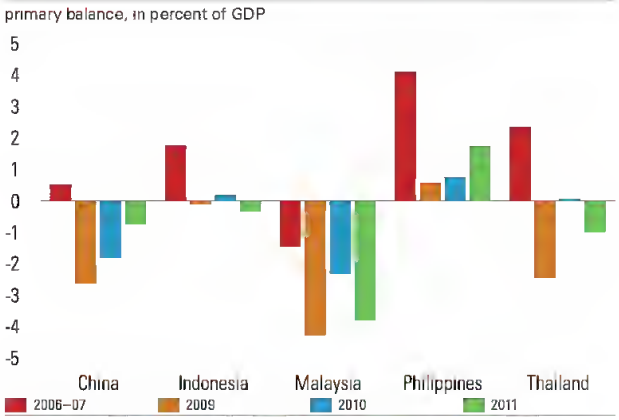


Sources: Government accounts and World Bank staff estimates. Output gap is defined here as the percentage gap between potential GDP and actual GDP, where potential GDP is calculated from the average growth rate from 2000–07 extrapolated to 2008–11

In Vietnam, since the onset of the stabilization policy in February last year, maintaining fiscal discipline has been a government priority to support monetary policy in stabilizing the economy, and to maintain debt sustainability over the medium-term. In contrast, in Mongolia, fiscal policy has been highly pro-cyclical in a booming economy, resulting from large mineral deposits development. Substantial revenue gains were met by even more ambitious spending as parliamentarians sought to maximize spending before a new Fiscal Stability Law becomes binding in 2013. The result has been a deterioration in the primary balance and a rapid increase in inflation. Primary balances for 2012 could become more negative in Cambodia, Lao PDR, and Thailand as governments pursue reconstruction following the damaging floods of 2011.

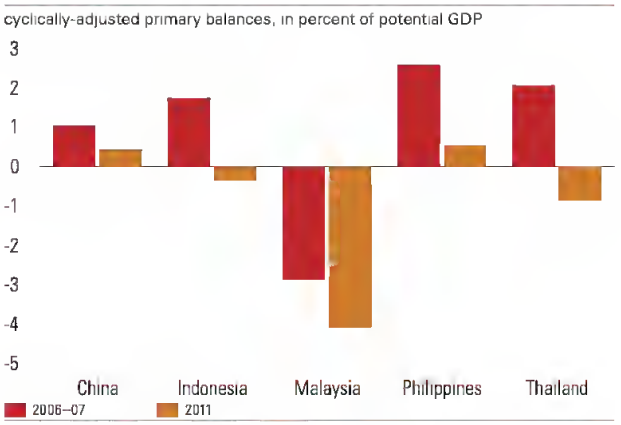
The withdrawal of fiscal stimulus in 2011 has been more tentative than expected, relative to the forecast in our previous update. Fiscal policy continued to normalize in China and the Philippines (Figure 63) but discretionary spending increased in Malaysia and Thailand. Overall, cyclically adjusted primary balances were still more negative than before the global crisis (Figure 64).

Figure 63. Withdrawal of fiscal stimulus has been tentative



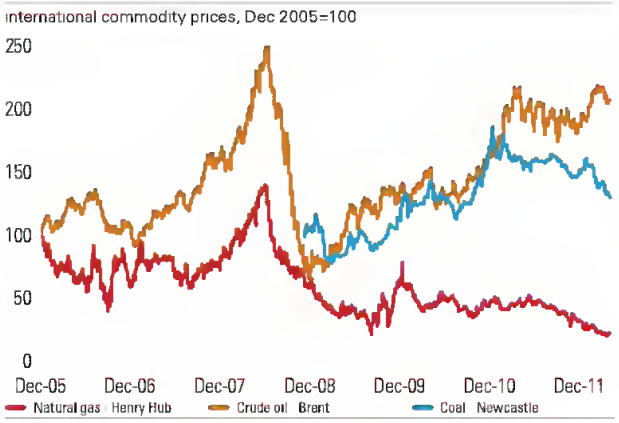
Source: IMF Fiscal Monitor, April 2012

Figure 64. ... and cyclically adjusted fiscal deficits remain larger than before the crisis



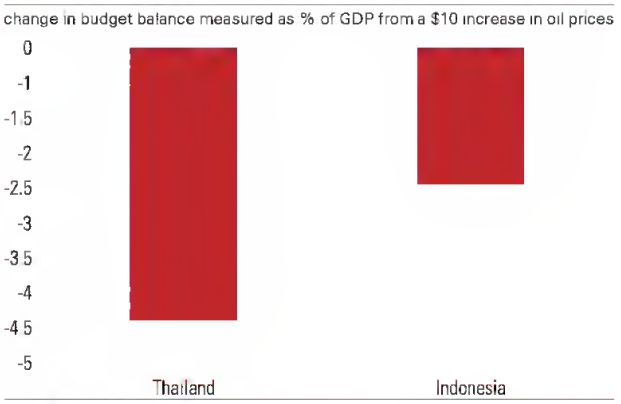
Sources: IMF Fiscal Monitor, April 2012
Note: Cyclically adjusted primary balances (CAPB) are general government primary balances adjusted to filter out cyclical movements associated with changes in output, thus allowing a focus on the underlying fiscal stance and the impact of discretionary policy

Figure 65. Oil prices remain high despite some recent easing



Source: Datastream. No data for coal prices prior to mid-2008

Figure 66. ... public balance are affected by rising oil prices because of domestic price regulations or subsidies



Source: World Bank Staff
Note: Estimates from an OLS regression of quarterly deficit to GDP ratios on oil prices (Brent US $/ bbl) with controls for the output gap using quarterly data from 2001-2011

Recent increases in oil prices contributed to spending pressures as countries in the region, other than Malaysia, are net oil importers, and several subsidize fuel prices. Although the international price of oil has eased slightly after climbing to nearly US$126/bbl in late February, it is still some 11 percent higher than the average price last October (Figure 65). Oil accounts for typically 40 percent or more of energy consumption in East Asia, with the exception of China, which relies on coal for meeting 70 percent of its energy needs. The region is largely a net importer of oil, and only a few net exporters will benefit from an increase in oil prices. However even for these countries, an increase in oil prices is a mixed blessing, since fuel (including oil) tends to account for a large share of the consumption basket and will affect the purchasing power of households. In addition, unlike for food or agricultural commodities, the benefits of a boom in mining are much less widely-shared, because mining sectors typically have few linkages to the rest of the economy and account for a smaller share of employment. Some governments have sought to shield consumers from price increases through fuel subsidies that cannot always be sustained as world prices increase. In Malaysia for example, fuel subsidies more than doubled to nearly RM18 billion in 2008, which eventually led to a restructuring of those subsidies and an increase in fuel prices of 40.4 percent. Despite this

restructuring, a similar amount has been budgeted for fuel subsidies this year. Indonesia has also recently approved a revised budget that allows for a rise in subsidized fuel prices, but only if the oil price is sufficiently high (Box 2). The Philippines has negligible direct fuel subsidies, but there is an indirect impact on the budget from rising oil prices as a result of subsidies provided to oil powered electricity generation.

Box 2. Subsidy reform in Indonesia—a missed opportunity for redirecting spending

The rise in international oil prices in early 2012 refocused attention on the fiscal burden of Indonesia's energy subsidies. The average Indonesian crude oil price was US$122 per barrel in the first quarter of 2012, up from an average of US$111 in the final quarter of 2011. In response to this price increase, and the weakening global environment, the government of Indonesia brought forward its revision of the 2012 budget and included a proposal to increase the price of subsidized fuel. To cushion the impact of higher energy prices, two compensation schemes were proposed, one focusing on targeted cash transfers to the poor and one on lowering public transportation costs. Eventually, the legislature passed a conditional reform, allowing for the option of an increase in the subsidized fuel price of one-third (IDR 1,500 per liter) provided that the average Indonesia Crude Price over a six month period was 15 percent above the budget assumption of US$105 per barrel—in other words US$120.8 per barrel.

The current system of fuel subsidies does pose a risk to the budget. The deficit in the proposed and approved revised 2012 budget was 2.2 percent of GDP, up from 1.5 percent in the original budget as a result primarily of higher energy subsidies. The World Bank estimates that if oil prices average US$120 over the year, the deficit could rise to 3.1 percent of GDP if there is no subsidized fuel price adjustment or 2.5 percent of GDP if a fuel price rise were to be implemented in the third quarter of 2012. From the perspective of fiscal sustainability a higher deficit is, however, manageable given Indonesia's strong initial debt position. Nevertheless, the risk of hitting Indonesia's three percent of GDP deficit limit may prompt a tightening in spending in key development areas. The greater uncertainty and complexity of the approach to fuel price adjustment also clouds the inflation and macro-policy outlook for investors. Furthermore, while recognizing the progress made on such a politically sensitive topic, the decision not to increase prices now represents a missed, or delayed, opportunity to redirect spending at a time when risks remain in the global environment.

Indeed, perhaps more important than the fiscal risk, the fuel subsidies spending has a considerable opportunity cost. For example, in 2011, Indonesia spent 3.4 percent of GDP on energy subsidies, of which 2.2 percent were spent on fuel and 1.2 percent on electricity. This compares to only 1.6 percent on capital and 1.0 percent on social expenditures.

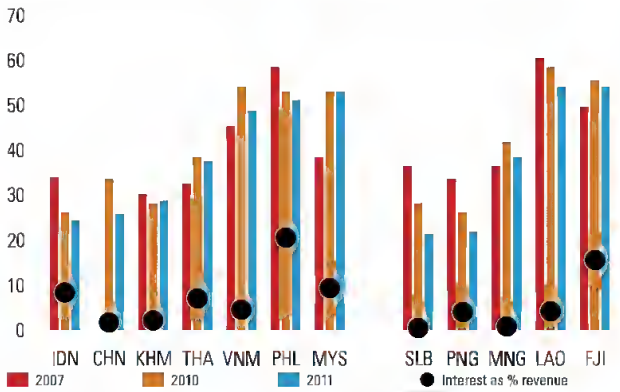
Subsidies are also an inefficient way of assisting the poor and vulnerable, and reduce incentives for efficient fuel usage. Due to subsidies, Indonesian fuel prices are low by regional standards. Yet since more affluent households have generally higher fuel consumption, subsidies benefit the rich disproportionately. For example, a car owner purchasing 50 liters of subsidized fuel per week would receive the equivalent benefit of IDR 1,115,000 per month, which is tenfold the IDR 111,000 per month for a motorcycle owner purchasing only 5 liters per week. A poor person without a motorbike or car would see very little direct benefit, although may benefit indirectly from lower transport costs. Accordingly, the 2009 household survey reveals that 40 percent of the benefits from fuel subsidies accrued to the richest ten percent—compared to 1 percent of the benefits that went to the poorest 10 percent.

Source: Indonesia Economic Quarterly, April 2012

Public debt levels have generally improved or continue to improve across the region, yet remain elevated in a number of countries and limit fiscal policy flexibility. Improved fiscal positions, coupled with strong or adequate growth, have pushed public debt below pre-crisis levels in a number of countries. In 2011, further debt reduction was seen in Indonesia, China, Mongolia, Philippines, Papua New Guinea, Solomon Islands, Thailand, and Vietnam (Figure 67). Yet, several countries have rather high debt burdens, in excess of 40 percent of GDP, and Cambodia and Malaysia saw debt rise in 2011 and will need to focus on consolidation (Figure 68). Cambodia, Lao PDR, and Thailand will all need to boost spending on reconstruction following the severe flooding in 2011. Cambodia lacks a market for treasury notes and thus cannot easily borrow; the government there will need to reduce the primary deficit in

Figure 67. Public debt levels have fallen in many countries though remain elevated above pre-crisis levels in several others

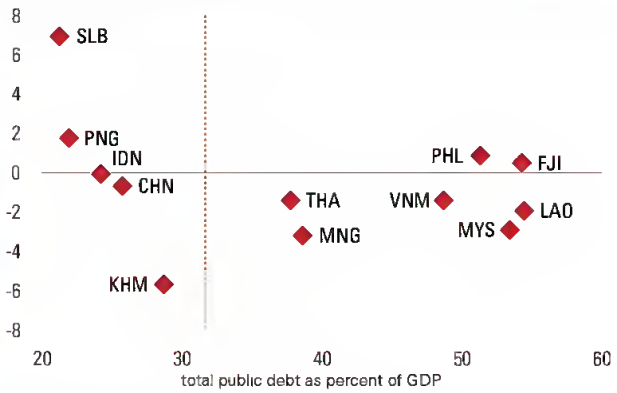
percent of GDP, percent of revenue and grants



Source: National sources and WB staff calculations
Note: Data are for the national (central or federal) level of government

Figure 68. ... and only a few countries appear to be well positioned for fiscal stimulus,

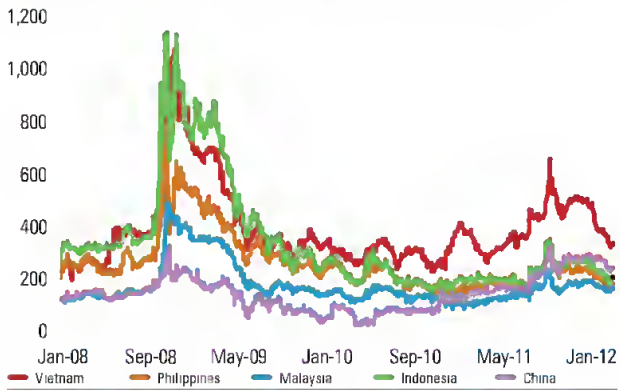
primary balance as percent of GDP



Source: National sources and WB staff calculations
Note: Data are for the national (central or federal) level of government. Green indicates that fiscal policy space would seem to be available while red suggests that space is limited

Figure 69. ... yet sovereign risk in Asia is falling again

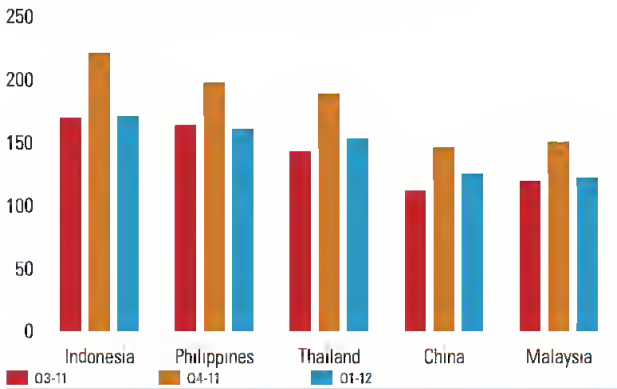
Emerging Markets Bond Index Global, stripped spreads, basis points



Source: JPMorgan, via Thomson Datastream

Figure 70. ... as is the cost of insuring against default

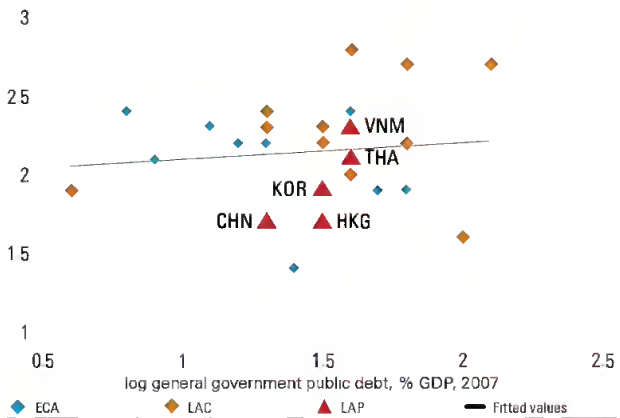
Average CDS spreads on 5-year sovereigns, in basis points



Source: Thomson Datastream

Figure 71. Prior to the global crisis, the bond market was only somewhat sensitive to debt positions

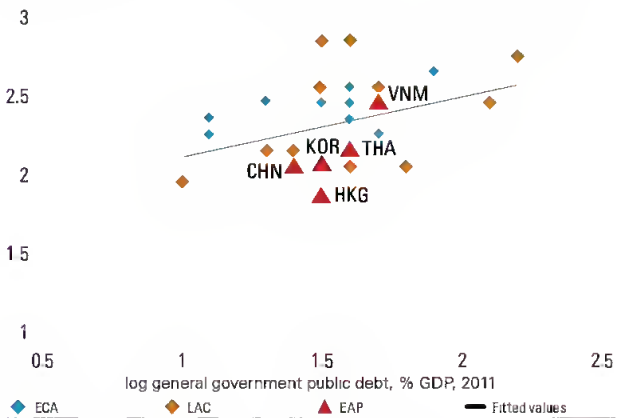
relationship between 5-year Sovereign CDS spreads (Q1 2008) and Public Debt (2007)



Source: Thomson Datastream and World Bank staff calculations

Figure 72. The market is now more reactive to risks arising from public debt

relationship between 5-year Sovereign CDS spreads (Q1 2012) and Public Debt (2011)



Source: Thomson Datastream and World Bank staff calculations

order to build its stock of government deposits as a buffer. Fiji, Indonesia, and the Philippines have fairly high interest obligations relative to revenues. However, falling interest rates and reduced risk premiums might offer some scope fiscal flexibility for some countries (Figure 69 and Figure 70).

In deciding on fiscal policy stance, policy makers need to be aware that global bond markets have become more discerning in their reaction to government fiscal positions. The costs of insuring government debt are much more closely-tied to public debt levels now than prior to the crisis as investors focus more on underlying policy (Figure 71 and Figure 72). In terms of recent developments, Vietnam has been making good progress in narrowing its very high risk premium of 662 basis points in October 2011 to 338 basis points by the end of March 2012. Continued efforts by the authorities could bring the spread down to levels enjoyed by other regional borrowers. Conversely, while the Chinese risk premium ticked down in the first quarter after a period of rising since mid-2010, the risk premiums in several countries fell faster. As a consequence, the Chinese risk premium is now higher than what the market confers upon Indonesia, Malaysia, and the Philippines in terms of bond spreads. Overall, fiscal risks within Emerging East Asia appear to be lower than in other regions (Figure 71 and Figure 72) and have fallen in 2011 somewhat on the strength of reduced credit default swap spreads and lower debt burdens.

III. Rebalancing in a Changing World

With external demand likely to remain weak for the foreseeable future, East Asia's continued high growth rates will need to rely less on an export-oriented model. While East Asian economies are already relying more on domestic demand to support economic growth, there is further scope for rebalancing. In some countries such as China this means higher consumption. For most, h igher investment can add to economic activity and jobs in the short run, while in the medium term it will enhance productivity and drive growth by facilitating a shift to higher value-added activities and more innovation. There is still much scope for productivity growth , as the gap between East Asia and the US, the global leader in labor productivity, has narrowed only modestly since 1990. Policies to support the movement of labor among countries can contribute to higher productivity. Migration in developing East Asia has helped fill labor shortages in host countries and remittance flows have contributed to poverty reduction and macroeconomic stability in home countries. Yet, as in other parts of the world, existing bilateral and regional migration policies do not always allow migrants to move efficiently to where returns are highest or allow firms to obtain the workers they need, and these policies may contain incentives for undocumented migration. Improved regional migration policies could enhance the gains from regional economic integration and allow those countries facing a negative demographic drag on economic growth in the next generation to obtain much-needed labor inputs.

For most EAP countries, growth will be stable in 2012 but downside risks remain

We expect that developing East Asia will grow by 7.6 percent in 2012. This is sharply lower than the estimated 8.2 percent growth recorded in 2011, with China pulling down much of the regional aggregate with growth falling by a percentage point from 2011 levels at 8.2 percent. Excluding China, regional growth is expected to increase from 4.3 percent in 2011 to 5.2 percent in 2012, yet much of this is driven by Thailand's bounce back after the floods of late 2011 (Table 1).

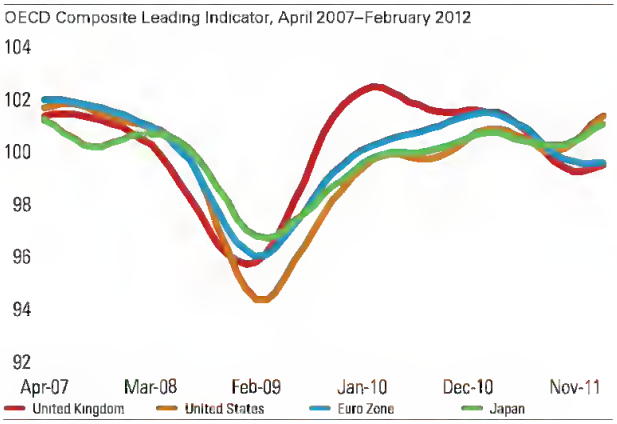
Prospects for East Asia are, as in other developing regions, weighed down by the persistent tepid recovery of the US and, most particularly, the uncertainty in Europe. Recent improvements in some recent economic data releases in the US are promising, but there remain big questions about the durability of a broader recovery in the short-term. Uncertainty in Europe, however, continues to pose the biggest threat to our forecasts. Though the risks of a disorderly deleveraging appeared to recede from some of the worst-case, short-run scenarios, as the agreement on a managed Greek default and the European Central Bank's injection of €1 trillion into the banking system helped relieve liquidity constraints, events of the past few weeks heightens our concerns. There remains great uncertainty over the short-run solvency of a number of southern European countries and whether there will be sufficient adjustment and liquidity in the medium-term to obviate further sovereign debt restructuring and restore growth. It is for this reason that we devote another section in our update to discussing the potential

Table 1. Annual GDP growth in percent

	2010	2011	Forecast 2012	Forecast 2013
East Asia	9.3	7.0	6.3	7.0
Developing East Asia	9.7	8.2	7.6	8.0
China	10.4	9.2	8.2	8.6
Indonesia	6.2	6.5	6.1	6.4
Malaysia	7.2	5.1	4.6	5.1
Philippines	7.6	3.7	4.2	5.0
Thailand	7.8	0.1	4.5	5.0
Vietnam	6.8	5.9	5.7	6.3
Cambodia	6.0	6.9	6.6	6.7
Fiji	-0.2	2.0	1.5	1.7
Lao PDR	8.5	8.0	8.3	7.5
Mongolia	6.4	17.3	17.2	11.8
Papua New Guinea	7.5	9.0	7.0	5.0
Solomon Islands	7.0	9.0	6.0	4.0
Timor-Leste	9.5	10.6	10.0	10.0
Developing EAP excl. China	7.0	4.3	5.2	5.6
Assumptions about external environment				
World	4.2	2.8	2.6	3.0
High-income countries	3.1	1.6	1.5	1.9
Developing countries	7.3	6.2	5.5	5.7

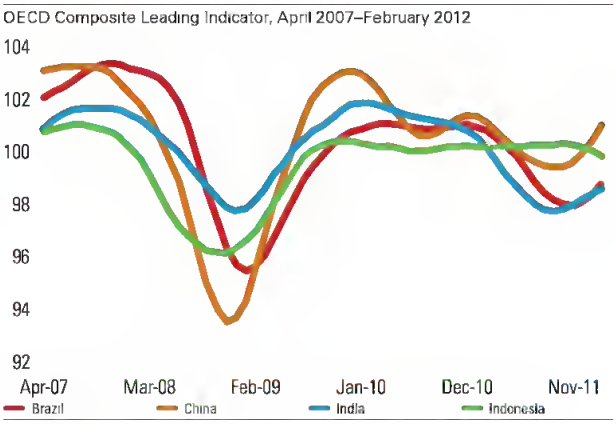
Source: World Bank

Figure 73. Leading indicators for the US and Japan are looking up though Europe continues to be weak



Source: OECD

Figure 74. . . .most major Emerging Markets are seeing an uptick in sentiment



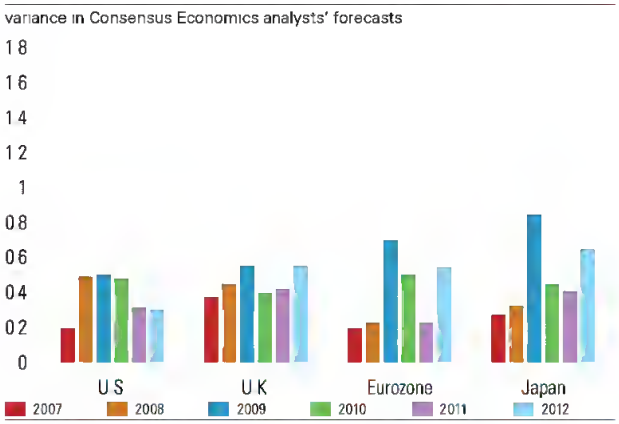
Source: OECD

impact of various trajectories of European developments. The uncertainty in the global environment is reflected in leading indicators. Some of these show positive trends for the US and Japan and a more negative picture for Europe (Figure 73 and Figure 74). Most of East Asia is tilting up on these leading indicators as well, but as this region's leading indicators are highly correlated with those of developed economies, further instability in the US and Europe will impact East Asian prospects.

We expect that developing East Asia will see growth fall to 7.6 percent in 2012, down from 8.2 percent last year. The expected one percentage point decline to growth in China, to a forecast 8.2 percent, weighs on the regional aggregate. When China is excluded, East Asian growth accelerates to 5.2 in 2012, from 4.3 last year, but much of this is driven by the rebound in Thailand. If Thailand is dropped from the aggregate, then real growth is unchanged from 2011 rates. Most countries will not see 2012 growth rates significantly different from those in 2011 and significant accelerations are only forecast for the Philippines and Thailand. Yet, as discussed earlier, seen in the context of the pre-crisis growth trends, these projected rates are still fairly robust. One outlier in the general forecast is that growth in Mongolia is expected to remain above 17 percent, reflecting a structural shift in the economy as large mining projects come onstream.

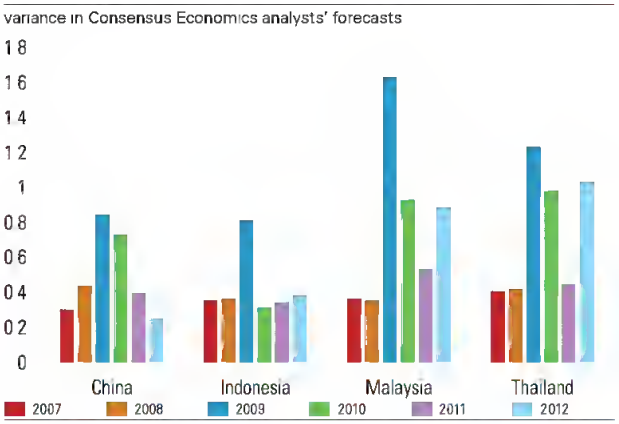
Given the uncertainty on prospects in the external environment, there are a number of large risks to this forecast. The prospects for growth in developed markets, and the potential impact that a renewed global recession would have on trade and capital flows, has heightened uncertainty about the growth prospects in Europe, Japan, and much of East Asia as reflected in the increased uncertainty among economic forecasts (Figure 75 and Figure 76).

Figure 75. Divergence among economic forecasters about the growth prospects for Europe has grown since 2009



Source Consensus Economics
Note The bars illustrate the standard deviation of the forecasts made by the analysts surveyed by Consensus Economics for the listed year. For example, the red 2007 bar reflects the variance of forecasts for 2007 reported in January 2007. A taller bar reflects more uncertainty.

Figure 76. ...and we also see increasing uncertainty about growth in East Asia in 2012, outside of China where most agree on slower growth



Source Consensus Economics
Note The bars illustrate the standard deviation of the forecasts made by the analysts surveyed by Consensus Economics for the listed year. For example, the red 2007 bar reflects the variance of forecasts for 2007 reported in January 2007. A taller bar reflects more uncertainty.

Though China's use of stimulus could mitigate against the risk of significant drop in output, growth will slow on the back of weakening exports and investments, particularly in infrastructure and real estate. A slowing China—which comprises 80 percent of developing East Asia's GDP—is a drag on growth across much of the region given China's growing role as an export destination and source of foreign investment. In particular, a slowing in Chinese investment will primarily hurt demand for commodity and capital goods and particularly impact natural resource exporters that are heavily reliant on Chinese demand. Mongolia, Solomon Islands, Lao PDR, and Malaysia

Despite the persistent risks emerging from developed markets and China, there is continued appetite for East Asian assets by international investors, and in many countries there is room for further policy stimulus. Macroeconomic policy is also aided by the slowing in inflation. International commodity prices have stabilized, with geopolitics and ongoing proposals to facilitate more pass-through of energy prices to consumers in a couple of countries now representing the biggest threat to short-run energy price risks. With slowing growth and receding price pressures, monetary policy is becoming more accommodative in a number of countries. As we have discussed, low interest rates have already translated into higher credit growth in some economies. In China, fiscal easing that is less credit-fueled, less local government-funded and less infrastructure-oriented is likely to be given more priority given the legacy of the last credit based stimulus

The greatest uncertainty: Europe

There are strong direct connections between European developments and East Asian prospects. The real impact of financial, funding, and trade linkages with the EU was amply evident in the second half of last year when there was a retreat to safer havens in financial markets so that regional currency and equity markets came under pressure, and exports stagnated in the face of declining demand from advanced economies. With the Euro area expected to experience a recession this year, core issues regarding the sustainability of the monetary union yet to be fully addressed, while the banking sector is expected to deleverage to the tune of some US$2.6 trillion.

Trade finance remains an important transmission mechanism from the Euro area. Although East Asia is the least exposed to the ongoing deleveraging by European banks, with total claims by those banks amounting to around 5 percent of the region's GDP, a large portion of these are short-term loans financing trade to the non-bank private sector. Euro area banks are estimated to provide one-third of trade and project finance in Asia[14] and they have repatriated money from the region to meet higher capital ratios. The pullback in trade finance lending and its cost is also likely to have been affected by new regulations under Basel III that are due to be phased in during 2013, which require higher quality capital to be set against such loans.

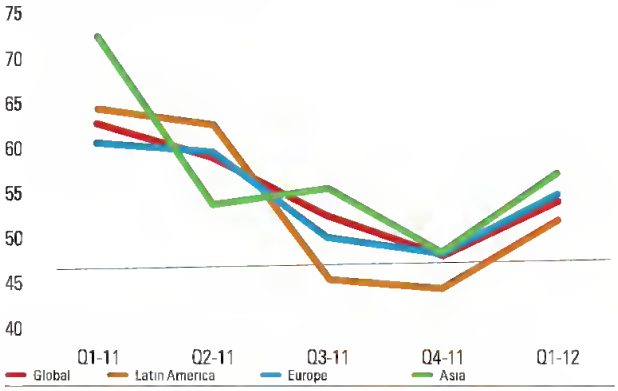
So far regional banks have been able to help bridge the financing gap left by retreating European banks, unlike 2008-9 when trade finance collapsed, but continued expansion in funding is not guaranteed. This is also confirmed in loan officer surveys of emerging markets, which indicate that the tightening of trade credit supply conditions has been less severe in Asia over the past year compared to other regions, and the subsequent easing of credit conditions in first quarter stronger (Figure 77). Nonetheless, continued supply of trade finance, which is usually denominated in dollars, by local banks without increasing asset and liability currency mismatches will depend on the extent to which they can increase growth in foreign currency deposits or access foreign currency funding in wholesale markets. With regard to the latter, international funding conditions are only marginally improving in Asia and are still tightening in other emerging market economies (Figure 78).

With the EU accounting for one-third of global import demand, a recession there will inevitably take its toll on East Asia. Developing East Asia exported some US$592 billion in goods to the EU last year, much more than it exported to countries within the region (Figure 79). China accounted for about two-thirds of these exports, but that reflects its role as a manufacturing hub within the region. EU import demand has been shrinking since November of

14 IMF GSFR, January 2012 Update

Figure 77. The supply of trade credit supply has eased the most in Emerging Asia

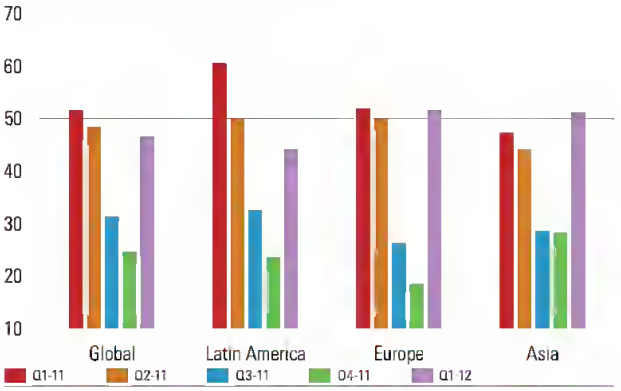
Supply of Trade Finance, Diffusion Index, 50=neutral, below 50 indicates tightening, above 50 represents easing



Source International Institute of Finance. The surveys are directed to loan officers or other equivalent officers in banks based in emerging market economies.

Figure 78. but funding conditions in international markets remain tight

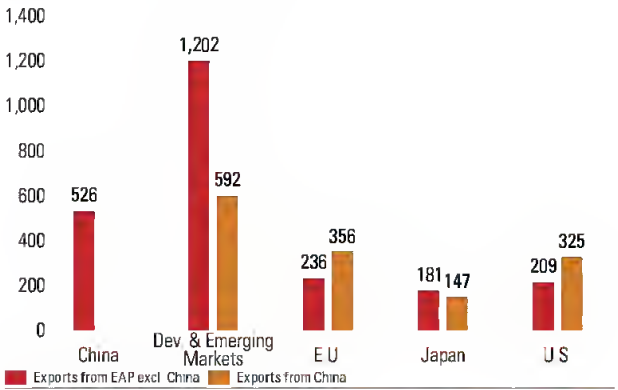
Funding Conditions in International Markets, Diffusion Index, 50=neutral, below 50 indicates tightening, above 50 represents easing



Source International Institute of Finance. The surveys are directed to loan officers or other equivalent officers in banks based in emerging market economies.

Figure 79. EAP exported more than US$500 billion of goods to the EU in 2011

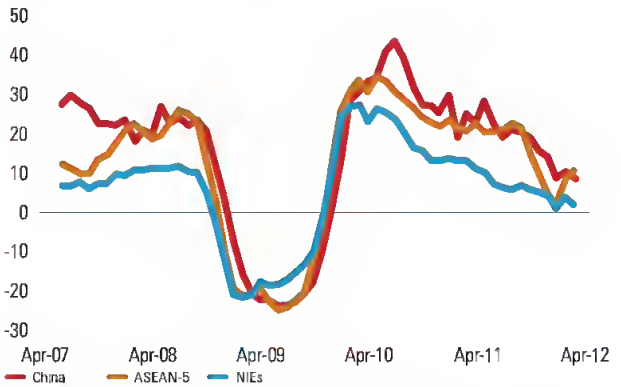
Destination of EAP and China originated exports (US$ bn)



Source IMF Direction of Trade Statistics
Notes Data for first 11 months of 2011

Figure 80. The region's base for exports to the EU is concentrated in textiles or electronic goods, both of which are sensitive to consumer demand

export volume, year-on-year percent change, three-month moving average



Source WITS and IMF Direction of Trade Statistics using data from Jan–Nov 2011

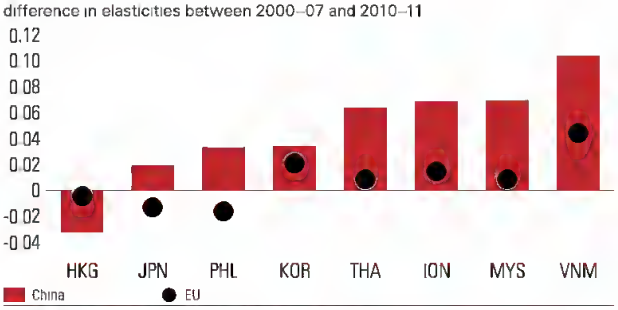
last year resulting, in a sharp deceleration in the region's export growth; indeed exports in the more trade-oriented economies contracted in March in year-on-year terms. Even though exports to the EU account for about one-tenth of total exports for most of developing East Asia, indirect spillovers through China will also have important second order effects. Certainly, the sensitivity of demand for the region's export to the EU through China has increased over the past decade and is fairly high in Malaysia, Thailand, and Korea (Box 3). Exports to the EU are also heavily focused on textile and electronic goods that are sensitive to consumer demand (Figure 80). Close vertical integration of Asian production networks centered upon China, for which the EU is its largest export market, will also help to amplify and transmit shocks to exporters of electronic goods and manufactured items which, evidence suggests, are increasingly shipped to Europe via China. Finally, although the region exports only a small share of its commodities to the EU directly, the main transmission channel will be through the increased volatility in prices that could stem from an intensification of the Euro area crisis and a slowdown in China itself, which consumes a large portion of the region's commodities.

Box 3. China bolsters its centrality in East Asian trade with Europe

At first sight, direct trade exposures of East Asia to Western Europe seem limited. Measured against total exports, the percentage of developing East Asian countries' exports to the Euro zone in 2011 ranged from 6 percent in Thailand to 11 percent in Vietnam, while China exported 14 percent of total exports to this region. Yet given the size of the Chinese economy, this means that in absolute US dollar terms, China's goods exports to the Euro zone in 2011 were 14 times those of Malaysia, 18 times those of Thailand, 24 times those of Vietnam, and 60 times those of the Philippines. China thus remains the main exporter to Europe in developing East Asia.

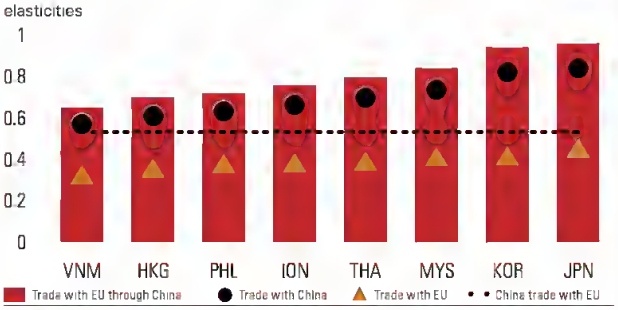
Dependence on trade with the Euro zone has increased only moderately in the region in the last decade. Compared to the early 2000s, the sensitivity of East Asian exports to European global demand, as measured by changes in trade elasticities over time, has increased most in Vietnam—which reflects its increasing role in the international trading system—followed by South Korea and Indonesia (Figure 1).[15] For some East Asian countries, including Japan, the Philippines, and Hong Kong SAR, China, this sensitivity even declined. On the other hand, with the exception of Hong Kong SAR, China, sensitivity of trade with China rose considerably across the region bolstering China's increasingly central position in world trade.

Box Figure 1. Trade between East Asian countries and China intensified—more than trade with Europe



Source: Eurostat, CEIC, and World Bank staff calculations
Note: Elasticities were estimated with OLS and measure the percentage change in demand for imports from a given region (China or the EU) for a given change in overall total import demand. The figure depicts the difference between average elasticities for the periods 2000-2007 and 2010-2011 for China and the Eurozone respectively.

Box Figure 2. China remains a major reloading site for East Asian exports to Europe



Source: Eurostat, CEIC, and World Bank staff calculations
Note: Estimated with OLS, the bars show the elasticity of Chinese imports from EAP countries vs. Chinese exports to Eurozone (EU); diamonds show the elasticity of Chinese imports from EAP countries vs. total imports, triangles show the elasticity of EU imports from EAP countries vs total imports, lines show the elasticity of EU total imports and imports from China. Data for 2010 and 2011.

15 It should be borne in mind that the estimated elasticities are only rough measures given the complexity of international trade.

Long-term prospects tied productivity and integration

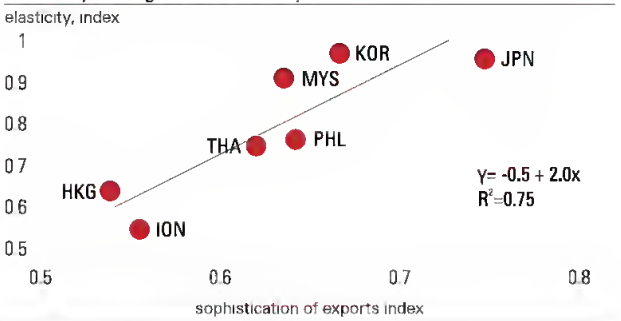
The possibility that the US and Western Europe will continue to experience sub-trend growth for a number of years ahead requires that East Asia, a heavily trade dependent region, focus on improving innovation and productivity. Productivity growth contributed heavily to the rapid growth rates experienced by many countries in the region since the 1997/98 regional economic crisis.[18] In fact, over the past 20 years, labor productivity growth doubled and was the fastest of any developed or developing region. (Figure 81 and Figure 82). There were large productivity gains across the region during this period, with biggest gains seen in China and in some of the less productive lower- and middle-income economies, such as Vietnam and the Philippines. However, the gap between most developing East Asian economies and other regions is large with 2010 productivity levels nearly twice as high in Emerging Europe and Latin America. Though developing East Asia's median annual average compound productivity growth rate

18 World Bank (2011) "Navigating Turbulence, Sustaining Growth," East Asia and Pacific Economic Update, Volume 2, pps. 37–38.

On the surface, dependence on trade with the Euro zone for East Asian countries is about half the magnitude of trade with China, and lower than China's direct exposure to demand from the Euro zone (Figure 2). This, however, conceals important indirect effects. The East Asian region is a closely-knit supply network and China functions as a form of advanced reloading site, where intermediate parts are assembled for export and for final consumption, largely in Europe and the US. The elasticity (measuring sensitivity) of East Asian countries' exports to China to Chinese exports to Europe is even higher than the elasticity of trade with China. This suggests that the advanced economies, proxied by Euro zone member countries in this case, are a considerably larger source of demand for East Asian exports through indirect effects, in addition to the direct trade channels.

While direct dependence on trade with Europe is relatively constant across the region, there is a noticeable degree of variation in indirect dependence (Figure 3). The Northeast Asian countries, South Korea and Japan, have particularly high indirect exposure, significantly more so than Southeast Asian countries like Vietnam. According to Yukon Huang, a former World Bank Country Director for China, the reason for this is that 'these countries export technology-intensive components to China, which possesses the scale required for assembling them into finished products finally sold to the West.'[16] Southeast Asian countries, on the other hand, compete with China's comparative advantage, making China a less favorable reloading site for them. Indeed, plotting elasticities of electrical and electronics exports to the Euro zone through China against an index of export sophistication[17] confirms this relationship; the more sophisticated the exports, the more trade with Europe is channeled through China (Figure). Less sophisticated goods may indeed remain in China for domestic consumption.

Box Figure 3. Electronics from more sophisticated exporters find their way through China to Europe



Source CEIC, and World Bank staff calculations
Note Elasticity of Chinese E&E exports to Europe vs Chinese E&E imports from EAP countries. Sophistication of exports index based on Lall et al. (2006)

Source World Bank staff

16 Lall, Sanjaya, John Weiss, and Jinkang Zhang (2006) 'The "sophistication" of exports: A new trade measure' *World Development* 34(2)222-237.

17 Huang, Yukon (2012) 'In the Middle Kingdom's Shadow' *The Wall Street Journal* March 26.

was nearly twice that of the US in the past 20 years and three times as fast in the past 10, its gap with US levels is still twice as large Emerging Europe and Latin America.

The challenges for enhancing productivity will be country-specific, but are linked to improvements in combining capital, labor, and technology. Previous editions of the EAP regional update have found:

- Improving the quality and quantity of investment will be crucial to boasting productivity. The share of investment to output is below 1997 levels in many countries while only a few countries meet or exceed the global middle-income average in the quality in public investment management.[19]
- Infrastructure investment will need to be a big part of this story. For many countries in developing East Asia, stocks of infrastructure per capita are below lower- to middle-income country averages.[20] Many countries

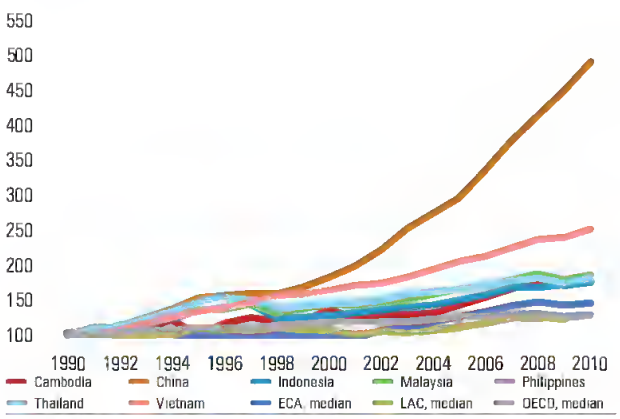
19 See World Bank (2011) "Navigating Turbulence, Sustaining Growth." East Asia and Pacific Economic Update, Volume 2.

20 Ibid.

have fiscal space to increase government spending, even if it is less than before the 2007/08 crisis (see fiscal section), yet it will be key to ensuring that increased public expenditure is directed towards productive investment and does not crowd out private sector activity.

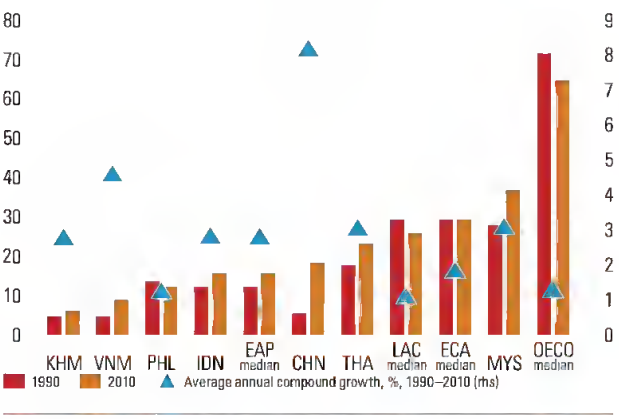
- Productivity is built on the skills of the workforce. Tertiary education enrollment is the region's middle-income economies are on par with countries of similar incomes yet below that of the OECD. Quality may need to be addressed in many countries; the performance of East Asian students in middle-income countries is below international average in reading and science.[21]

Figure 81. Labor productivity has grown across the region with China experiencing explosive growth



Sources: ILO Key Indicators of the Labor Market, World Bank staff calculations

Figure 82. ... yet, labor productivity still lags other developing regions



Sources: ILO Key Indicators of the Labor Market, World Bank staff calculations

Enhancing productivity must be linked with enhanced regional integration so that firms have the ability to trade and obtain financing, and acquire skills from abroad. Generally, the region has done relatively well on moving towards enhanced financial and trade integration, though much more could be done in the area of labor. Looking first at finance, the median level of developing East Asia's financial openness—measured by the sum of foreign exchange assets and liabilities as a share of GDP—has increased by over 33 percentage points of GDP over the past 10 years, led by big jumps in Malaysia and China (Figure 83). This rate of increase is about double that of Latin American countries but still below that of Emerging Europe. Market-driven integration has supported efforts to strengthen institutions and arrangements for more comprehensive regional economic cooperation. In particular, the impetus for financial integration strengthened in the face of the economic crisis through the launch of the Chiang Mai Initiative, a US$120-billion multilateral currency swap arrangement among ASEAN nations, China, Japan, and Korea.[22]

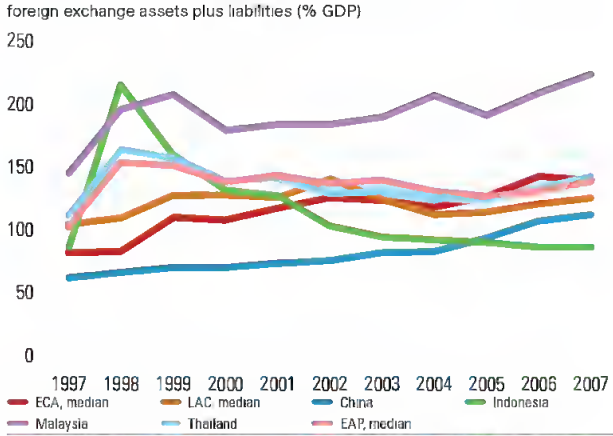
Trade integration in developed East Asia has been higher than other developing regions. Regional trade and investment are reasonably intense, intra-regional exports, as a portion of total exports, was 36 percent in 2010 and grew, on average, by 16 percent per year from 2000 to 2010 (Figure 84). This has been strongly driven by the emergence of regional production networks that are largely centered on China. There are still sizeable gains to be made, however; as we argued in a previous update, a re-balancing of the Chinese economy has the

21 Data reported from Trends in International Mathematics and Science Study (TIMSS) in World Bank (2011) "Securing the Present, Shaping the Future," East Asia and Pacific Economic Update, Volume 1

22 World Bank (2011) "Securing the Present, Shaping the Future," East Asia and Pacific Economic Update, Volume 1

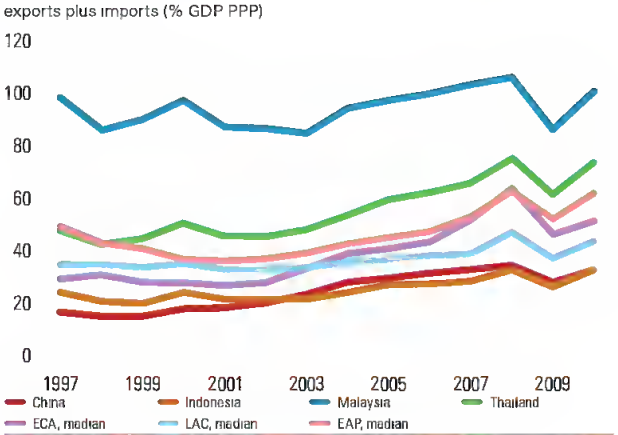
potential to enhance the intensity of these intra-regional flows with an increase of China's private consumption by five percentage points of GDP will improve the trade balances of some EAP countries by as much as 0.5 percentage points of GDP.[23]

Figure 83. Financial integration in East Asia increased in some countries, but not all, since the 1997/8 crisis



Sources: World Bank World Development Indicators. Assets and liabilities data from Lane and Milesi-Ferretti (2007)

Figure 84. ...while the region has been a leader in trade integration



Source: World Development Indicators

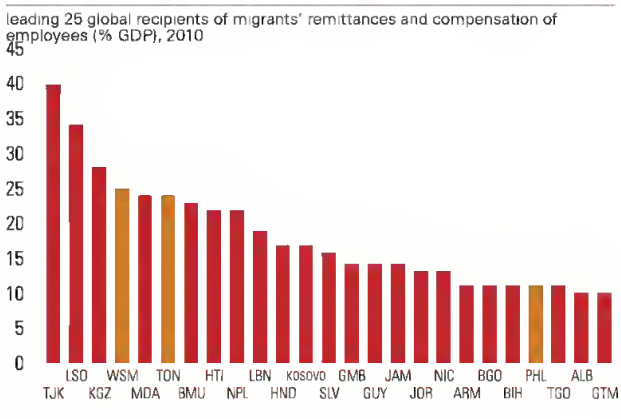
Increasing the gains from labor migration represents another opportunity to increase the benefits of regional integration as well as improve the lives of the region's labor migrants.[24] Remittance flows in the region are huge and expanding faster than those to the developing world as a whole. Between 1989 and 2009, remittances to East Asia grew at an average annual rate of 15.8 percent as compared with 7.8 percent for the developing world. Remittances make up a sizeable proportion of the GDP in several of the countries of developing East Asia; the share of remittances in GDP range from a low of 1 percent in large countries like China or Indonesia to around 10 percent in the Philippines, and a very substantial 20 percent-to-30 percent of GDP in small island nations like Samoa and Tonga (Figure 85).

Migration has significant development impacts at the household level and is critical for macroeconomic management. International remittances play a critical role in stabilizing the external account and thereby reducing economic volatility. At the household level, there is evidence that remittances lead to increases in consumption and reduction in poverty rates. In Indonesia, for instance, the receipt of international remittances reduces the probability of a household being poor by 28 percent. There is also evidence of significantly higher investment in education in both Indonesia and the Philippines and in housing in the Philippines among households receiving remittance transfers. In terms of macroeonomic management, remittances financed 5 percent of imports in China and up to 99 percent of imports in the smaller country of Tonga. Remittances, in some years, were also more than twice the current account deficits of countries such as Vietnam and more than five times the deficits of Tonga and Samoa (Figure 86). In Vietnam, annual remittances were about half of foreign exchange reserves and around 30 percent of gross reserves in the Philippines.

23 International Monetary Fund (2011) "China Spillover Report for the 2011 Article IV Consultation and Selected Issues," Washington DC

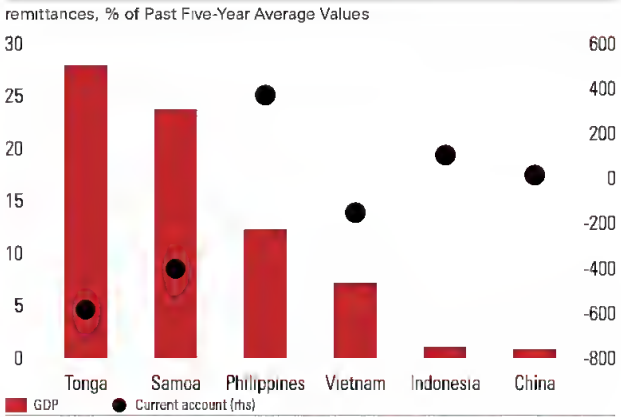
24 This section is based on World Bank (forthcoming) International Migration and Development in the East Asia and Pacific Region, Washington DC

Figure 85. The region is home to some of the most remittances dependent economies in the world



Source: World Bank World Development Indicators

Figure 86. Remittances have helped some countries manage macroeconomic imbalances



Source: World Bank (forthcoming) International Migration and Development in the East Asia and Pacific Region, Washington DC

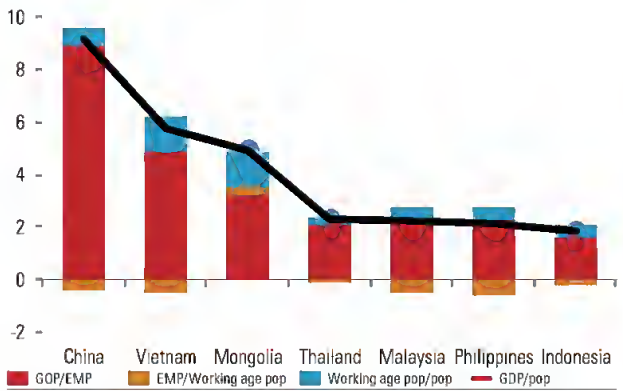
Migration in East Asia will become an even more salient issue in the future given the shrinking labor force in many countries. Firstly, along with intra-regional trade and finance, international migration will become part of the resurgent drive towards the "deep" economic integration in East Asia taking place through ASEAN and various ASEAN Plus agreements. This is most explicitly recognized in the ASEAN Economic Community Goals, which include liberal labor mobility requirements for skilled workers by 2015.

Secondly, East Asia is currently facing the onset of one of the most rapid demographic changes in history. Growth in the region has benefited from the growing the in the size of the working age population (Figure 87). However, most of the region will see this demographic contribution to growth disappear over coming decades. Rapidly-maturing working-age populations in several labor-receiving countries—such as Japan, South Korea, and even Thailand – will reduce labor supply. On the other hand, rising demand for services and non-tradable goods will increase labor demand from a number of labor-sending countries—such as Indonesia and Vietnam (Figure 88). Taken together, these forces will create important labor shortages in a number of countries, which, if unmet, will lower economic growth and sharply increase fiscal and health costs. Moreover, it is notable that some of the countries that have benefited most from a positive demographic contribution to growth—China, Vietnam, and Mongolia—are among those expected to experience the steepest declines in their working age population over the next 38 years. Persistent income differentials between labor-sending and labor-receiving countries in the region will also add to the flow of migrant workers between countries. Given these factors, the key question concerning international migration in East Asia is not whether it is desirable, but how policies should be designed so as to positively enhance the returns of international labor flows for sending and receiving countries and migrants.

However, a number of market failures make it difficult to realize these positive returns to international migration. Much of the legal migration in the region is facilitated through bilateral agreements designed to encourage temporary or circular migration. However, there are large information asymmetries between the knowledge of recruiting agencies, employing firms, potential workers, and governments. These information gaps and the demand for longer-term, rather than temporary, migration in many countries produce large incentives for undocumented migration; for example, in Malaysia, undocumented workers comprise half of the 2 million migrants, and in Thailand, it is estimated that only 47 percent (1.3 million) of migrant workers are documented or partially regularized through the registration process. Undocumented migration is very costly, as it exposes migrants to potential abuse, directs many of the gains

Figure 87. Growth has benefitted from a 'demographic dividend'

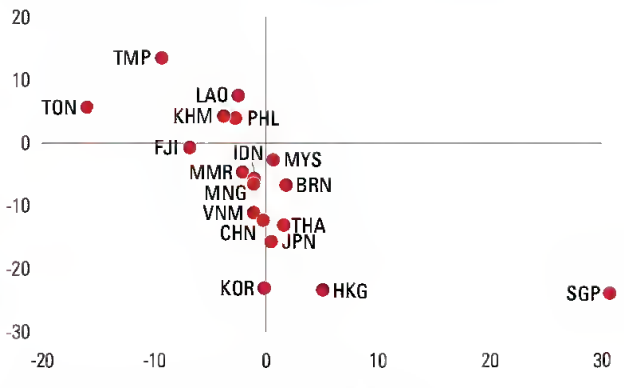
average annual growth rate in GDP per capita and its components, 1997–2008



Sources ILO LABORSTA and World Bank World Development Indicators
Note Growth in GDP per capita is decomposed into (1) growth in GDP per employed person or aggregate labor productivity (GDP/EMP), (2) growth in employment as a share of the working age population or the employment rate (EMP/Working Age POP, (3) growth in the share of the working age population in the total population (Working Age POP/POP).

Figure 88. ...yet much of the region will experience a decline in the working age population and will need to increase immigration flows

Change in working age (15–64 years) population to total population forecast for 2010–25 and net migration rate per 1000 population for 2005–10



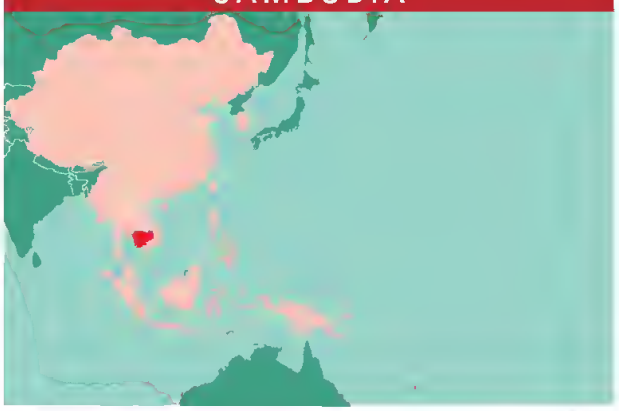
Source UN Population Prospects
Note Population forecasts reflect the medium fertility variant

of migration away from migrants, firms, and governments to migrant traffickers, and may produce incentives for migrants to stay longer than they would otherwise because of the absence of legal options for emigrating again once they have returned home.

Improved multilateral and regional agreements that promote legal migration have significant advantages and should remain goals to work towards. Regional charters, such as the ASEAN Declaration on the Protection and Promotion of Migration, provide useful and constructive guidelines, but remain only an aspiration for now. At present, bilateral agreements on the temporary movement of persons and labor across countries provide the best prospects for enhancing international labor mobility, yet they must recognize that the labor market needs to balance supply as well as demand by allowing firms to hire the workers that they need through legal and transparent channels.

COUNTRY PAGES AND KEY INDICATORS

CAMBODIA



Population	14.1 million
Population growth	1.17 percent
GDP (PPP, int'l US$ billions)	31.0
GDP per capita (PPP, int'l US$)	2,078
Surface area	181,040 sq. km
Capital	Phnom Penh

Source: World Development Indicators

The Cambodian economy has continued its high growth path as real GDP expanded by 6.9 percent in 2011 and is expected to grow by 6.6 percent in 2012. Cambodia has been one of the fastest growing countries in the world over the past ten years, experiencing average annual growth of over 8 percent since 2000.

The economy's performance in 2011 was strong despite destructive floods hitting the agricultural sector during the last quarter. Growth came in higher than projected as a result of a recovery in the damaged agricultural sector (which grew by 3.3 percent in 2011 compared with an earlier forecast of 1.5 percent) and the robust expansion of exports, private investment, and consumption.

The risks of an impact of an economic slowdown in the US and EU, the two largest destinations of Cambodia's key garment and textile exports, have not so far materialized: merchandise exports in 2011 jumped by 36 percent, with exports of garments and textiles up 32 percent and reaching US$4 billion. Garment exports appear to have benefitted from a shift of labor intensive industries from China to lower wage cost countries like Cambodia. Cambodia experienced an 18 percent increase in the number of garment factories in 2011.

Milled rice exports expanded rapidly in 2011, recording annual of growth of 250 percent and reaching 180,000 tons last year. Despite the floods, rice production is anticipated to increase on the back of increased yields in both wet and dry season production and increased planted-areas. Milled rice exports were also supported by the establishment of new mills that increased milling capacity.

Foreign and private (including local) investment approvals shot up by 160 percent in 2011, and continued attracting new entrants such as Japanese investors. Foreign direct investment approvals for Japanese investors accounted for US$6.4 million in fixed assets (three projects) compared with none in 2010. Cambodia's top five investors in 2011 were the UK, China, Vietnam, Malaysia, and Korea.

Cambodia released its first Economic Census in March 2012, which showed that the country's private sector is growing rapidly, with more than one-third (36 percent) of new establishments being created in the last two years. This was reflected in a growing number of new businesses being registered with the Ministry of Commerce in 2011, where registrations grew by 21 percent. About 97 percent of these firms were microenterprises and small economic activities of between 1–9 employees, while 2.6 percent were medium-sized (10–99 employees), and 0.2 percent were large businesses (100 or more employees).

Private consumption represents 85 percent of GDP and grew by an estimated 13.5 percent in 2011. Imports of cars rose by 27 percent in 2011 (car import volume rose by 9 percent but the value of these imports increased by 27 percent, reflecting an influx of higher-end autos) and imports of consumer goods grew by 23 percent. Cambodia's per capita expenditure rose by 37 percent between 2004 and 2009[25].

25 CSES 2009

The agriculture sector proved to be resilient after the floods and production expanded by 3 3 percent in 2011. Industry and service sectors grew by 14.3 percent and 5 0 percent respectively. At the same time, real estate rose by 4.3 percent and construction was up by 6.1 percent, reflecting solid rebounds from the sag in demand during a financial crisis of 2010 that had triggered a contraction in these sectors.

Tourist arrivals in 2011 rose 15 percent to 2.9 million visitors, with the temple complex of Angkor Wat alone drawing 60 percent of these visitors. The country's tourism receipts were estimated to grow by 7 percent to nearly US$2 billion in 2011.

Prospects for 2013 are very positive, with GDP growth expected to come in at 6.7 percent. Growth will be driven by vibrant private sector activities, mainly in the service sector (trade, banking, real estate, and construction), some agriculture activities (rice milling), and industry. In terms of the latter, the export-oriented textiles and garments manufacturers are likely to continue to record strong performances.

The external sector has improved. The 2011 trade deficit fell to 12.4 percent of GDP from 14.1 percent of GDP in 2010, reflecting stronger net exports. The trade deficit-to-GDP ratio is expected to edge down further in 2012. Inflows of foreign direct investment registered dynamic gains last year, accounting for 10 3 percent of GDP, as a result of strong investment in tourism and industry (led by light manufacturing). Gross foreign reserves expanded 14 percent, reaching US$3 billion (23 4 percent of GDP or 4.5 months of imports) by the end of 2011, and this momentum is expected to continue in 2012 with reserves projected to reach US$3 4 billion.

Price stability was maintained in 2011 despite the recent volatility of global food prices. There has been some recent inflationary pressure as a result of higher imported oil prices, however Cambodia's consumer price inflation cooled a little to 4.9 percent year-on-year in 2011, due to lower food prices; food prices account for nearly half of the consumer price inflation in Cambodia. Core inflation fell to 3.3 percent year-on-year after hitting a year-high point of 4 percent in June. In terms of tax policy, since January 1, 2011, the government has applied an "ad valorem tax" policy for petroleum imports, while reducing its import duty rate significantly, as opposed to a "fixed-price" tax on petroleum imports. This would mean that any price fluctuations are now a reflection of world markets. Any policy to reduce the tax rate on petroleum imports would benefit public consumers as a whole, but would benefit high-income households disproportionately as Cambodia's wealthiest consume 15 times more than that the poorest quintile[26]. However, the consumer price inflation rate in Cambodia remains within the government target of 5 percent annual increase. Overall, price inflation is projected at around 5 percent in 2012.

The nominal exchange rate has been very stable for nearly a decade, and is traded at 4,039 riel per US dollar at the end of 2011. Cambodia's exchange rate policies continue to pursue price stability, the National Bank of Cambodia (Cambodia's central bank) has intervened in currency markets, injecting some US$240 million of local currency into the market during 2011. By the end of 2011, local currency in circulation accounted for nearly US$950 million, or 31 percent of its gross reserves. Exchange rate stability has been a key factor in leading the central bank to keep the riel tightly linked to the US dollar, with fluctuations limited to a band of plus or minus one percent.

The financial sector has continued to expand in spite of the high level of dollarization. New commercial banks continue to enter the market, with 35 institutions operational by the end of 2011. While dollarization has played an important role in maintaining the confidence of depositors, the degree of dollarization actually edged down slightly, by 0.5 percentage points in 2011 in terms of the ratio of foreign currency deposits to broad money in 2011.

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Bank lending has also gained momentum after a slowdown through 2009 and 2010, reflecting the recovery of private sector vibrancy. Credit to the private sector rose by an average of 28 percent per month over the past 12 months. The ratio of loans-to-deposits rose from 74 percent in 2010 to 82 percent in 2011, indicating stronger growth of private sector activities last year. Noticeably, this lending increase was mainly directed to sectors such as agriculture, manufacturing, construction, and mortgages (home loans). The growth potential of Cambodia's banking and financial markets is expected to become more dynamic this year, as the Cambodian Securities Exchange (CSX) officially launched on July 11, 2011, and a first listing was scheduled for an initial public offering in April 2012.

The Credit Bureau Cambodia was launched in March 2012, to reduce credit risk and support the growth of the banking system. It boasts a new centralized computer information system that contains data on all loans and credit issued by all banks and microfinance institutions (MFIs) in Cambodia. The credit bureau will allow banks and MFIs to access borrowers' credit histories, helping banks to better gauge their credit risk.

Flexible fiscal and economic policy helped mitigate the effects of internal and external shocks. Government policy has proven to be fast and nimble in response to past crises and shocks: the response to the 2009 financial crisis and 2011 floods included expansionary fiscal policy (including the introduction of appropriate fiscal stimulus through amending the Budget Law in May 2009 to stimulate spending to mitigate the downside risk of the external shock) and supportive social program spending (reallocations from non-priority to priority and flood-affected sectors). In the 2012 Budget Law, a retrospective approval was made for budget responses to the floods in 2011.

The government also has strengthened fiscal management. After expansionary fiscal policy was introduced during the 2009 crisis, fiscal consolidation proceeded in 2010 and 2011 with better-than-anticipated reductions in deficits, and more aggressive cutbacks in non-essential current expenditures. The pace of fiscal performance in 2011 has been consistent with macroeconomic stability, with the fiscal deficit (excluding grants) gradually reduced from 7.5 percent of GDP in 2010 to an estimated 6.0 percent of GDP in 2011, and with higher spending on priority (productive) sectors. The fiscal deficit for 2012 is projected to be similar to the level of 2011. However, achieving better fiscal consolidation in the medium-term remains a challenge for the country, particularly in 2012 as Cambodia addresses reconstruction spending needs due to the floods, as well as commune elections in June 2012. As a chair of ASEAN 2012, it hosts a number of meetings including the ASEAN summits in April and November this year, and also general elections in 2013.

It is important to rebuild fiscal space through revenue measures to cope with these expected outlays. The first priority in this regard is to enhance revenue collection, reduce the fiscal deficit, and rebuild the stock of government deposits. Government deposits with the central bank fell from US$732 million (or 7.1 percent of GDP) at the end of 2008 to US$540 million (or 5.2 percent of GDP) at the end of 2009. This reflected the impact of the government's response to the financial shocks and floods. As the economy recovers and growth accelerates, it is imperative to rebuild this reserve to its pre-crisis level to restore this important cushion. Government reserves stood at 4 percent of GDP (equivalent to US$526 million) at the end of 2011.

Cambodia Key Indicators

	2008 Year	2009 Year	2010 Year	2011e Year	2012f Year	2013f Year
Output, Employment and Prices						
Real GDP (% change y-y)	6.7	0.1	6.0	6.9	6.6	6.7
Domestic demand (% change y-y)	18.3	2.7	10.7	12.5	13.0	13.4
Industrial production index (2000=100)	256	231	263	300	323	349
(% change y-y)	4.0	-9.5	13.6	14.3	7.5	8.0
Unemployment (%)	1.7	..	..	..	..	..
Consumer price index (% change y-y)	12.5	5.3	3.1	4.9	5.0	5.0
Public Sector						
Government revenues (% GDP)	12.0	12.0	13.1	13.1	13.4	13.5
Government expenditures (% GDP)	14.8	20.4	20.6	19.1	19.2	19.1
Government balance (% GDP)	-2.8	-8.4	-7.5	-6.0	-5.8	-5.6
Foreign Trade, BOP and External Debt						
Trade balance (millions US$)	-1,584	-1,494	-1,582	-1,603	-1,736	-1,793
Exports of goods (millions US$)	3,493	2,996	3,884	5,277	5,831	6,530
(% change y-y)	7.6	-14.2	29.7	35.8	10.5	12.0
Key export (% change y-y) 1/	3.3	-19.0	24.4	31.7	15.0	15
Imports of goods (millions US$)	5,077	4,490	5,466	6,879	7,567	8,324
(% change y-y)	12.4	-11.6	21.7	25.9	10.0	10.0
Current account balance (millions US$)	-1150	-1,066	-1,171	-912	-1,400	-1,500
(% GDP)	-11.1	-10.2	-10.4	-7.0	-9.9	-9.7
Foreign direct investment (millions US$) 2/	795	525	762	1,332	1,399	1,407
External debt (millions US$)	2,776	2,946	3,206	3,611	3,992	4,336
(% GDP)	27	28	29	28	28	28
Short-term debt (millions US$)	323	265	262	264	268	270
Debt service ratio (% exports of g&s)	1.2	1.5	1.4	1.2	1.2	1.4
Foreign exchange reserves, gross (millions US$)	2,164	2,367	2,653	3,032	3,395	3,803
(months of imports of g&s)	4.3	4.4	4.5	4.5	4.5	4.5
Financial Markets						
Domestic credit (% change y-y)	51.1	19.9	35.3	37.7	25.0	25.0
Short-term interest rate (% p.a.)	15.8	15.0	15.0	15.0	15.0	15.0
Exchange rate (Riel/US$, eop)	4,081	4,169	4,053	4,039	4,100	4,100
Real effective exchange rate (2000=100)	122.8	123.0	122.5	123.0	124.0	..
(% change y-y)	17.1	0.2	-0.4	0.4	0.8	..
Memo: Nominal GDP (millions US$)	10,352	10,402	11,242	12,949	14,075	15,468

Sources: National data sources, IMF, and World Bank staff estimates
e = estimate
p = projection
1/ Garments
2/ From 2011, includes FDI related to public-private power sector projects

Population	1 338 billion
Population growth	0 5 percent
GDP (PPP, int'l US$ billions)	10,169 5
GDP per capita (PPP, int'l US$)	6,863
Surface area	9,598,088 sq km
Capital	Beijing

Source World Development Indicators

The Chinese economy continued to cool during the latest period, with GDP growth falling from 10.4 percent in 2010 to 9.2 percent in 2011. Weaker investment and net exports trimmed 0.6 and 1.5 percentage points respectively from the 2011 GDP expansion, while consumption partly offset their decline by adding 1.0 percentage point. This slowdown has continued into early 2012, with growth for the first quarter coming in at only 8.1 percent year-on-year.

Slow growth in the Euro area and a sluggish US recovery limited the contribution of net exports, as export growth slowed more rapidly than import growth. Domestically, tighter monetary and credit policies aimed at containing inflation (particularly assets and goods) worked to dampen growth in investment, particularly in infrastructure and real estate. In contrast, consumption growth remained robust as consumer confidence remained buoyant, labor market fundamentals were strong, and household income continued to grow rapidly.

Inflation, a key policy concern over 2011, is back on a declining trend. Food inflation—the key contributor to China's overall inflation over past years—receded as one-off factors faded. Non-food inflation eased in line with the global and domestic slowdowns. As a result, consumer price inflation slowed from 6 5 percent in July 2011 to 3.6 percent in March 2012, while producer prices have stabilized. Wage growth remained robust, but the continued rapid rise in labor productivity acted to dampen growth of unit labor costs.

The balance of payments position softened as manufacturing exports slowed, while commodity prices remained high. The trade balance fell from 4.4 percent of GDP in 2010 to 3.4 percent in 2011, and even registered a slight deficit in early 2012. Foreign direct investment weakened as uncertainty built. These developments curbed foreign exchange accumulation, as well as the pace of nominal and real exchange rate appreciation.

The near-term outlook is expected to remain dominated by external weakening and further property market adjustment. As a result, GDP growth is projected to fall further to 8 2 percent in 2012, before rebounding somewhat to 8 6 percent in 2013. Domestic demand will contribute around 8.4 percentage points to growth in 2012 as consumption growth slows slightly and investment growth decelerates rather sharply. As world trade is expected to remain weak, external demand will subtract some 0.3 percentage points from growth. The projected rebound remains modest, as these trends are likely to weigh on 2013 as well.

Consumer price inflation is projected to slow from 5.4 percent in 2011 to 3.2 percent in 2012, as growth eases, commodity-price impulses fade, and asset values deflate further. China's external terms of trade will likely improve as import prices dependent on commodities decelerate by more than export prices dominated by manufactures. Exchange rate appreciation is expected to slow as long as the weak external environment continues to weigh on export volumes and prices.

The current account surplus should increase slightly from 2.8 percent of GDP in 2011 to 3.0 percent in 2012, and 3.3 percent in 2013. In 2012, beneficial terms of

trade changes offset an initially lower trade balance driven by export weakness and import robustness. Stronger growth in trade volumes and further terms of trade improvements would drive the increase in 2013. Despite continued net capital inflows, foreign exchange reserves are seen accumulating more slowly.

While our central projection shows a gradual slowdown, risks are tilted towards the downside and concentrated in two areas. First, while financial market concerns have recently eased, a key external risk remains the ability of high-income countries to avert a deeper economic downturn. A further slowing of demand among countries in the Organization for Economic Cooperation and Development (OECD) would ripple quickly through East Asia's production and trade networks, where China occupies a central position. Second, the main domestic downside risk arises from the ongoing correction in China's property markets, even though such an adjustment has so far remained gradual and orderly.

China's near-term policy challenge is to sustain growth through a soft landing. The ongoing slowdown is partly welcome to the extent that it reflects a deceleration in growth from above-potential levels. While the prospects for a gradual slowdown remain high, there are concerns that growth could slow too quickly. However, sufficient policy space exists to respond to downside risks. In addition, given heightened levels of uncertainty, policy should remain highly flexible, with frequent but gradual adjustments as new data become available.

Given China's still significant fiscal space and the already accommodative monetary stance, the burden of any countercyclical response should fall on fiscal policy. The policy response would need to be crafted with longer-term effects and objectives in mind. Relative to previous episodes, fiscal stimulus would ideally be less credit-fueled, less local government-funded, and less infrastructure-oriented. Fiscal measures to support consumption, such as targeted tax cuts, social welfare spending and other social expenditures, should be viewed as the first priority.

Monetary policy could also be adjusted on the margin. Reserve requirements could be tweaked further to ease the availability of credit, with policy rate action best reserved for downside scenarios given already-accommodative real rates. Ongoing administrative efforts have been helpful in cooling the property market, but would preferably be phased out in favor of market-based measures that raise the cost of capital and expand the range of investment opportunities.

China's longer-term challenge is to continue steering its economy towards a more sustainable path. As the traditional engines of growth weaken, GDP growth should gradually slow. China will see major demographic change over time, with the labor force expected to soon shrink. Investment rates are already extremely high and cannot be increased much further without adverse social and environmental consequences. Finally, total factor productivity growth would likely soften as efficiency gains from first-generation reforms wane and technology gaps with high-income economies narrow.

Given the anticipated slowdown, policies should aim to reinvigorate the underlying drivers of growth through more efficient allocation and use of factors, reform, and enhanced competition in the enterprise sector, as well as further improvements in China's human capital, and efforts to progressively shift from low-cost to higher-value, supported by innovation. In view of the social, environmental, and external imbalances that have accompanied rapid growth and structural change, this would also require sustaining the ongoing shift in focus from the rate of growth towards the quality of development.

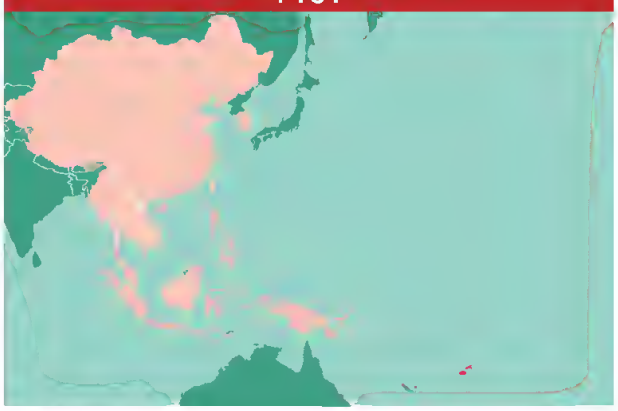
The 12th Five-Year Plan supports these directions and lays out an ambitious agenda of structural reform. The recent China 2030 study by the Development Research Center and the World Bank builds on these strategic directions and provides ideas on how they could be undertaken.

China Key Indicators

	2009	2010	2011	2012f	2013f	2011				2012	2011	2012			
	Year	Year	Year	Year	Year	Q1	Q2	Q3	Q4	Q1	Dec	Jan	Feb	Mar	Apr
Output, Employment and Prices															
Real GDP (% change y-y)	9.2	10.4	9.2	8.2	8.6	9.7	9.5	9.1	8.9	8.1					
Industrial production index /1	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
(% change y-y)	8.7	12.1	..	..	..	14.3	13.9	13.8	18.1	17.5	12.8	11.4	11.4	11.9	9.3
Unemployment (%) 2/	4.3	4.1	..	..	..	4.1	4.1	..	4.0	4.0	..	..	..	..	..
Real wages (% change y-y)	12.4	9.7	..	..	..	..	..	..	..	..	..	..	..	..	..
Consumer price index (% change y-y)	-0.7	3.3	5.4	3.2	3.6	7.1	6.9	..	2.6	4.4	4.1	4.5	3.2	3.6	3.4
Public Sector															
Government revenues (% GDP)	20.1	20.7	22.0	22.1	22.2	..	..	..	..	..	..	..	..	..	..
Government expenditures (% GDP)	22.4	22.4	23.1	23.9	23.7	..	..	..	..	..	..	..	..	..	..
Government balance (% GDP)	-2.8	-1.7	-1.1	-1.9	-1.5	..	..	..	..	..	..	..	..	..	..
Domestic public sector debt (% GDP) /3	17.7	16.8	20.0	..	..	..	..	..	..	..	..	..	..	..	..
Foreign Trade, BOP and External Debt															
Trade balance (billions US$)	198.2	184.5	157.9	..	..	-0.7	46.7	62.9	73.2	76.0	16.5	27.3	-31.5	5.3	18.4
Exports of goods (billions US$)	1,202.0	1,578.4	1,899.3	..	..	399.7	474.8	518.3	331.6	339.8	174.7	149.9	114.5	165.7	163.2
(% change y-y) 4/	-15.9	31.3	20.3	..	..	26.4	22.0	20.7	26.2	22.2	13.3	-0.5	18.3	8.8	4.9
Key export (% change y-y) 5/	-15.7	31.4	20.2	..	..	26.1	21.9	..	26.9	22.4	13.1	-0.5	17.4	10.0	..
Imports of goods (billions US$)	1,003.9	1,393.9	1,741.4	..	..	400.4	428.1	455.4	258.3	263.7	158.2	122.7	146.0	160.3	144.8
(% change y-y) 4/	-11.3	38.9	24.9	..	..	32.8	23.1	24.9	20.7	25.4	12.1	-15.0	40.3	5.4	0.3
Current account balance (billions US$)	297.1	305.4	201.1	245.0	315.0	..	..	..	..	..	..	..	..	..	..
(% GDP)	6.0	5.2	2.7	3.0	3.3	..	..	..	..	..	..	..	..	..	..
Foreign direct investment (billions US$) /6	94.1	105.7	116.0	..	..	30.3	30.6	..	17.2	30.3	12.2	10.0	7.7	11.8	8.4
External debt (billions US$)	428.6	548.9	..	..	..	..	..	..	..	..	..	..	..	..	..
(% GDP)	8.6	9.3	..	..	..	..	..	..	..	..	..	..	..	..	..
Short-term debt (billions US$)	259.3	375.7	..	..	..	..	..	..	..	..	..	..	..	..	..
Debt service ratio (% exports of g&s)	2.87	1.6	..	..	..	..	..	..	..	..	..	..	..	..	..
Foreign exchange reserves, gross (billions US$)	2,405.7	2,853.8	3,187.6	3,606.0	4,086.0	3,051.3	3,204.1	..	1,440.2	1,534.8	3,187.7	3260.2	3,316.3	3,311.6	..
(months of imports of g&s)	18.1	15.6	22.0	..	..	91.5	89.8	..	66.9	69.8	20.2	26.6	22.7	20.7	..
Financial Markets															
Domestic credit (% change y-y)	31.7	19.9	14.3	..	..	17.9	16.9	..	17.1	16.1	15.8	15.0	15.2	15.7	15.4
Short-term interest rate (% p.a.) 7/	2.8	3.3	3.3	..	..	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Exchange rate (RMB/US$, eop)	6.83	6.62	6.30	..	..	6.57	6.48	6.38	6.33	6.31	6.30	6.31	6.29	6.29	6.28
Real effective exchange rate (2000=100)	104.7	109.1	116.1	..	..	107.0	106.7	..	98.4	97.7	116.1	115.3	116.0	115.2	..
(% change y-y)	-5.0	4.2	6.3	..	..	1.7	-1.5	..	5.1	4.5	6.3	7.4	5.5	7.6	..
Stock market index (Dec. 19, 1990=100)/8	3,277	2,808	2,199	..	..	2,928.1	..	..	5,552.3	5,261.6	2,199.4	2,292.6	2,428.5	2,262.8	2,199.4
Memo: Nominal GDP (billions US$)	4,990.5	6,031.8	7,451.9	..	..	..	..	..	..	..	..	..	..	..	..

Source: National data sources
f = forecast
1/ Annual data are not comparable with the quarterly and monthly data. Annual data cover all industrial enterprises while the quarterly and monthly ones only refer to those enterprises with sales value above RMB 5.0 million.
2/ Official urban unemployment only, not including laid-off workers.
3/ Includes treasury bonds, policy financial bonds and other financial bonds (end-period outstanding)
4/ Nominal growth rate
5/ Manufactured exports
6/ Gross FDI utilized
7/ Central Bank loans to financial institutions, less than 20 days
8/ Shanghai Stock Exchange A-Share Price Composite

FIJI



Population	860,000
Population growth	1 0 percent
GDP (PPP, int'l US$ billions)	4 0
GDP per capita (PPP, int'l US$)	4,647
Surface area	18,270 sq km
Capital	Suva

Source World Development Indicators

After four years of negative or low growth, Fiji's economy is estimated to have grown by around 2 percent in 2011. A fragile domestic investment environment resulting from prolonged economic and political uncertainties, unfavorable weather events, and continued weakness in the sugar industry contributed to the earlier lackluster economic performance. The turnaround in 2011 was driven by the continued strength of the tourism sector, as well as the stronger performance of the agriculture sector, which recovered well from the 2010 cyclones. This included limited improvements in the sugar industry, both in terms of production and mill efficiency.

Fiji's economy is projected to experience broad-based growth, resulting in a 1.5 percent increase in GDP in 2012. Western Fiji experienced floods in both January and April 2012, and although as yet it is still too early to assess any economic impact from these events, they could negatively impact the agriculture and tourism industries. The floods affected crops, including cane, which could result in the government missing its targeted 10 percent growth in sugar exports in 2012. The floods also hit the country's tourism gateway, Nadi, which might constrain growth in the tourism sector after the 6.8 percent increase in tourist arrivals experienced in 2011.

Inflation picked up sharply in 2011, but is expected to moderate in 2012. Inflation accelerated steadily from 5.9 percent in January 2011 to a peak of 10.4 percent in August, before easing to 7.7 percent by the end of 2011. The upward trend was largely driven by elevated global food and oil prices, an increase in the value-added tax rate, and an upward revision of the electricity tariff. As the impact of one-off factors wears off, inflation should moderate to a rate under 5.0 percent by the end of 2012. The Fijian economy remains vulnerable to adverse international price developments, given around two-thirds of inflation is imported.

The current account deficit is projected to narrow from an estimated 12 percent of GDP in 2011, to under 10 percent of GDP in 2012. Higher commodity prices have contributed to the weak external balances in recent years. Domestic exports could grow on the back of strong demand for commodities, garments, and food stuffs from its neighbors. Import growth is expected to be weak given subdued consumption. Services and income receipts are expected to continue growing in line with growth in tourism and remittances. Foreign reserves remain adequate, at around five months of import cover, and are expected to remain above four months of import cover in 2012. The Real Effective Exchange Rate rose by 4 percent in 2011, indicating a loss in global competitiveness that was mainly attributable to the increase in inflation.

Indicators of investment activity in Fiji have remained weak, and uncertainty in respect of the political situation is likely to continue to constrain investment. The Reserve Bank of Fiji (RBF) estimates that investment was around 14.0 percent of GDP in 2011, below the peak of 18.3 percent in 2005, and substantially beneath than the government's target of 25 percent of GDP. A higher allocation for capital expenditure in the 2012 budget and potential mining and tourism-related projects might provide some support to investment activity in 2012. Credit growth remains sluggish, however,

despite ample liquidity in the system, reportedly due to a lack of viable projects. In February 2012, the RBF introduced a new policy measure to increase lending by requiring commercial banks to allocate 4 percent of their deposits to the agriculture sector and 2 percent to renewable energy. It is too early to judge the impact of this measure. Foreign investment is expected to remain weak in the medium-term, although this may change if political uncertainties are reduced, helping to bolster investor confidence.

Consumption indicators showed a mixed performance in 2011, and no clear trend is expected to emerge in 2012. The growth in remittances—estimated to have been around 5 percent in 2011 in US dollar terms—has been supportive of consumption activity. However, a decline in new lending for consumption purposes (6.4 percent in the year to September 2011), and the marginal growth in retail sales (0.2 percent in the year to September 2011) indicates cautiousness in consumer spending. The increase in public investment and reduction in marginal tax rates in 2012 could support consumption, but may be partially offset by weak labor market conditions.

The fiscal deficit is budgeted to fall to around 2 percent of GDP in 2012 from an estimated 3.5 percent in 2011, despite a substantial capital expenditure boost. The narrowing of the budget deficit is on account of a reduction in expenditure on Fiji Sugar Corporation restructuring costs and a projected increase in revenues (despite reductions in marginal tax rates). Some risks to achieving budget targets include optimistic forecasts of the impact of the change in marginal tax rates, revenue losses from customs duty concessions, slow progress in implementation of revenue administration measures, and the emergence of additional funding requirements associated with weather events. However, in recent years the government has had difficulties in implementing planned capital projects, a trend that may improve the budget balance in 2012, but at the cost of infrastructure development and flow-on growth effects.

Persistent fiscal deficits in recent years have caused a steady increase in Fiji's public debt. Debt is currently estimated at 54.2 percent of GDP and the government faces contingent liabilities equivalent to 17.5 percent of GDP. The authorities announced their intention to issue Fiji Infrastructure Bonds of around FJD196 (US$108 million) in the domestic market, commencing February 2012, with maturities ranging from 2–15 years. Around three-quarters of public debt is held domestically, mostly by the Fiji National Provident Fund. In March 2012, the Fund implemented a new set of pension annuitization rates (between 8.7–12.1 percent), following an assessment that the old rates (between 15–25 percent) were unsustainable and created unfunded liabilities.

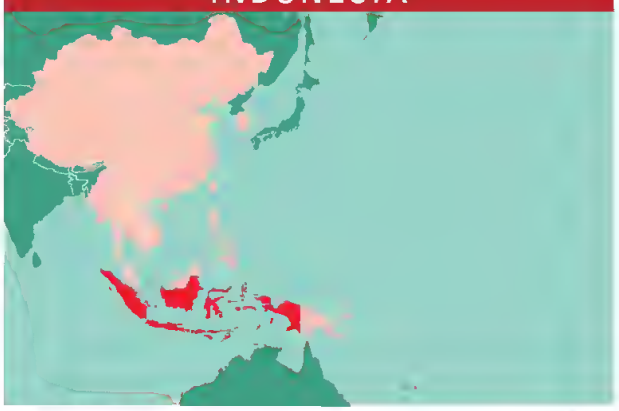
Policy space to respond to future shocks is limited. High government debt is likely to constrain the government's ability to resort to fiscal stimulus. In addition, the space for further monetary easing is constrained, given the policy rate is now set at 0.5 percent after three reductions in 2011, and because the weak transmission mechanism in Fiji limits the impact of monetary easing.

Fiji Key Indicators

	2008 Year	2009 Year	2010 Year	2011e Year	2012f Year	2013f Year
Output, Employment and Prices						
GDP (% change y-y)	1,0	-1,3	-0,2	2,0	1,5	1,7
Tourist arrivals (thousands)	585	542	632	675	..	..
(% change y-y)	8,4	-7,3	16,5	6,8	..	..
Unemployment rate (%)	7,7	9,4	..	..	..	..
Consumer price index (% change y-y)	6,6	6,8	5,0	7,7	4,8	4,2
Public Sector						
Government revenues (% GDP)	25,5	25,0	25,3	25,2	25,6	24,3
Government expenditures (% GDP)	25,3	29,6	27,4	28,7	28,1	26,4
Government balance (% GDP) 1/	-0,1	-4,5	-2,4	-3,5	-1,9	-1,5
Domestic public sector debt (% GDP) 2/	42,1	46,2	46,6	41,3	39,6	38,1
Foreign Trade, BOP and External Debt						
Trade balance (millions US$)	-1,177	-676	-773	-856	-816	-1198
Exports of goods (millions US$)	497	393	551	644	702	716
(% change y-y)	25,8	-21,0	40,3	16,9	9,0	2,0
Key export (% change y-y) 3/	35,5	-38,6	-43,8	33,3	19,4	15,1
Imports of goods (millions US$)	1,980	1,241	1,541	1,759	1,757	2151
(% change y-y)	26,1	-37,3	24,2	14,1	-0,1	22,4
Current account balance millions US$)	-649	-219	-358	-421	-361	-707
(% GDP)	-18,1	-7,6	-11,3	-11,9	-9,8	-18,6
Foreign direct investment (millions US$)	362	134	189	200	185	193
Total external debt (millions US$) 4/	450	430	464	612	672	857
(% GDP)	13,9	14,7	14,6	17,3	18,3	22,6
Short-term debt (millions US$)	..	..	..	..	..	..
Central government debt service ratio (% exports of g&s) 5/	1,9	2,2	1,4	16,6	1,2	1,0
Foreign exchange reserves, gross (millions US$) 6/	317	566	716	761	738	712
(months of imports g&s)	1,8	4,4	4,4	4,6	4,4	3,6
Financial Markets						
Domestic credit (% change y-y) 7/	11,2	0,2	3,2	6,0	..	..
Short-term interest rate % p a)	0,3	7,1	3,5	2,2	..	..
Exchange rate (FJ$/US$, eop)	1,8	1,9	1,9	1,8	..	..
Real effective exchange rate (2005=100)	102	90,5	87,9	91,3	..	..
(% change y-y)	2,6	-11,3	-2,9	3,9	..	..
Memo: Nominal GDP (millions US$)	3,590	2,879	3,173	3,546	3,671	3,795

Source National data sources
e = estimate
f = forecast
1/ Government balance below the line
2/ Excluding Fiji Sugar Corporation
3/ Sugar
4/ External debt inclusive of external debt by statutory bodies Rise in extnal debt reflects drawdown of the US$250 million global bond
5/ Rise in debt service ratio in 2011 reflects the maturity of the US$150 million global bond, which was refinanced and a new bullet bond repayment is expected in 2016
6/ Includes foreign assets of non-bank financial institutions
7/ Domestic credit to the private sector

INDONESIA



Population	229.8 million
Population growth	1.0 percent
GDP (PPP, int'l US$ billions)	1,037.5
GDP per capita (PPP, int'l US$)	4,085
Surface area	1,904,570 sq. km
Capital	Jakarta

Source: World Development Indicators

Real sector performance has continued to be strong since our November 2011 update. Indonesia's growth came in at 6.5 percent in the fourth quarter of 2011, and has accelerated on a seasonally-adjusted, quarterly basis. Annual growth in 2011 was also 6.5 percent, the highest annual growth rate since 1996, up from 6.1 percent in 2010. Investment was the major growth driver in the final quarter, while private consumption, although slowing modestly, continued to make a strong contribution to growth. Reflecting weakening external demand, but robust domestic demand and imports, net exports detracted from seasonally-adjusted quarterly growth. The strength of domestic demand continues to support growth in services sectors, such as trade, transport, and communications. Non-oil and gas manufacturing performed particularly strongly, with year-on-year growth moving up to 7.4 percent in the fourth quarter of 2011.

Responding to the weakening external environment and higher oil price, the government brought forward to early March the submission of its revised 2012 budget to parliament. The government's proposal to increase the subsidized fuel price from April 2012 was a welcome move away from the quantitative restrictions in the original budget. After much debate, parliament allowed the option of a fuel price increase of one-third to IDR 6,000 per liter subject to the condition that the average, over six months, of the Indonesian crude oil price is 15 percent above the budgeted assumption of US$105.00 per barrel (i.e. US$120.80 a barrel). Concern over the rising fiscal burden of energy subsidies reflects the recent sharp upward movement in international oil prices, but also the sustained increases in domestic fuel consumption, in line with Indonesia's rising domestic incomes and vehicle usage.

Without a fuel price adjustment and assuming oil prices of US$120 per barrel, the World Bank estimates that the budget deficit could move up to just above 3 percent of GDP. In 2011, the realized (unaudited) government deficit came in at IDR 90 trillion, or 1.2 percent of GDP, well below the revised budget level of IDR 151 trillion (2.1 percent of GDP). This outcome reflected under-spending in core government programs that more than offset higher spending on energy subsidies. The deficit in the proposed and approved revised 2012 budget was 2.2 percent of GDP, up from 1.5 percent in the original 2012 budget as a result, primarily, of higher energy subsidies. However, the World Bank estimates that if oil prices average US$120 a barrel over the year, the deficit for 2012 could rise to 3.1 percent of GDP if there is no subsidized fuel price adjustment, or 2.5 percent of GDP if a fuel price rise is implemented in the third quarter of 2012.

Additional spending on fuel subsidies represents significant opportunity costs, but not necessarily a short-term fiscal sustainability problem given Indonesia's strong initial debt position. However, the risk of hitting Indonesia's deficit limit of 3 percent of GDP might prompt a tightening in spending in key development areas. The greater uncertainty and complexity of the approach to fuel price adjustment also clouds the inflation and macro-policy outlook for investors. Furthermore, while recognizing the progress made on such a politically sensitive topic, the decision not to increase prices now represents a missed, or delayed, opportunity to redirect spending at a time when risks remain in the

global economy. For example, in 2011 Indonesia spent 3.4 percent of GDP on energy subsidies (2.2 percent on fuel and 1.2 percent on electricity subsidies), and only 1.6 percent and 1.0 percent of GDP on capital and social expenditures, respectively. Furthermore, most of the benefits of fuel subsidies go the wealthier segments of the population.

The baseline near-term scenario continues to be one of a solid growth outlook, as Indonesia's economic fundamentals remain sound. Fitch Ratings and Moody's Investors Service recently moved the country's sovereign credit rating back to investment grade for the first time since the 1997/1998 crisis. A moderation of export growth is projected for 2012, reflecting a downward revision to Indonesia's major trading partner growth, but there is expected to be continued support from domestic drivers of growth. However, any fuel price hike later in the year, and the resulting inflation, could take some edge off private consumption growth. Overall, growth is 2012 is forecast to remain robust at 6.1 percent, and to move back up to 6.4 percent in 2013.

Spillovers from global financial market volatility and the weaker external environment have been seen most markedly in balance of payments deficits of the second half of 2011. Following strong inflows in the first half of 2011, the balance of payments saw overall outflows in both the third and fourth quarters of 2011; the first quarterly deficits since the fourth quarter of 2008. For 2011 as a whole, balance of payment inflows reached US$11 9 billion (down from US$31.8 billion in 2010). The outflows in the third quarter were driven primarily by a reversal in portfolio flows in the wake of heightened uncertainty surrounding the Euro zone debt crisis. In the fourth quarter, portfolio outflows were lower, but banking outflows rose. Foreign direct investment inflows also moderated in the second half of 2011, but still remained relatively strong. With the trade surplus narrowing and with a sizeable services deficit, the current account balance has been trending downwards, moving into deficit in the fourth quarter of 2011 for the first time since the final quarter of 2008. In terms of the outlook for trade and investment, a number of restrictive changes to regulations have been put in place or proposed, affecting, for example, horticulture imports or exports and investment in the mining sector. Although the policies may not have an immediate impact on growth and investment, they may have significant longer-term implications.

Inflation continued its downward trajectory into early 2012, reflecting the fading impact of sharp increases in food prices in late 2010. Over 2011, inflation slowed and, at 3 6 percent year-on-year in February 2012, moved to its lowest rate in almost two years, before picking up to 4 percent in March. Inflation across the components of the consumer price index was mixed. Core inflation, which reached a two-and-a-half-year high of 5.1 percent year-on-year in August 2011, had eased to 4 3 percent by January 2012.

In anticipation of a worsening external environment, and with inflation declining, monetary policy eased in late 2011 and early 2012. After a 25-basis-point cut in October 2011, one of the earliest policy responses in the region, a subsequent 50-basis-point reduction in November surprised financial markets, and was followed by a further 25-basis-point cut in February 2012, moving the rate to 5.75 percent. The lower limit of Bank Indonesia's operational corridor (the overnight deposit facility rate) was widened further in January 2012. As a result of these policy changes, overnight interbank rates have fallen by around 200 basis points since August 2011

However, Bank Indonesia now faces the challenge of responding to emerging inflationary pressures, particularly related to any adjustment in the price of subsidized fuel, but also stemming from potential overheating if economic growth picks up above expectations. The central bank has indicated its intention to manage any resulting short-term inflationary pressures, most likely through macro prudential tools aimed at liquidity management, while interest rates would continue to be directed to control inflation pressure from fundamentals based on the macroeconomic outlook. In addition, Bank Indonesia recently announced the imposition of maximum loan-

to-value ratios for housing loans as well as prescribed minimum down payments on vehicle purchases.

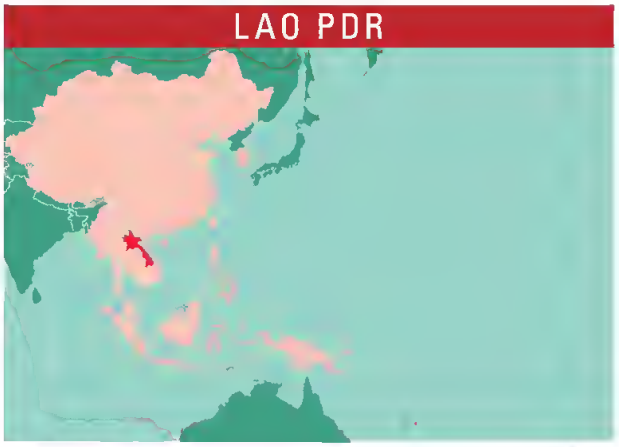
Developments in the global economy and financial markets also represent an important downside risk to Indonesia's short-term outlook. International financial markets and portfolio flows to Indonesia remain volatile, and the global economic outlook is uncertain. The direct impact of lower growth in the EU on Indonesia is likely to be limited, as its exports are relatively diversified by destination. However, while Indonesia's reliance on commodity exports has supported growth over the past few years of rising commodity prices, it also represents a source of vulnerability. In this respect, developments in China are of particular interest given their influence on commodity demand and prices (as discussed in the main section of the report).

Looking to the medium-term, sustained efforts to remove other distortions in economic activity and to improve the allocation and efficiency of government spending can help Indonesia reach its objectives of inclusive and higher growth. Redirecting spending by reducing fuel subsidies is only the first step. Progress in improving the allocation and efficiency of government spending is crucial to enable Indonesia to achieve its potential of sustained 7 percent-plus growth, while ensuring that the benefits of this growth are enjoyed by all. Improvements in the business climate and regulatory policy can also help Indonesia reach these higher growth rates.

Indonesia Key Indicators

	2008	2009	2010	2011	2012f	2013f	2011				2012	2011	2012			
	Year	Year	Year	Year	Year	Year	Q1	Q2	Q3	Q4	Q1	Dec	Jan	Feb	Mar	Apr
Output, Employment and Prices																
Real GDP (% change y-y)	6.0	4.6	6.2	6.5	6.1	6.4	6.4	6.5	6.5	6.5	6.3	..	..	..	..	..
Domestic demand (% change y-y)	7.5	5.4	5.3	5.7	6.0	6.4	5.1	5.8	5.2	6.4	6.4	..	..	..	..	..
Industrial production index (2000=100)	127.2	128.9	134.6	142.1	..	..	137.2	139.5	143.6	148.0	..	148.9	..	..	..	..
(% change y-y)	3.0	1.3	4.4	5.6	..	..	5.4	4.9	5.7	6.0	.	6.1	..	..	..	..
Unemployment (%) 2/	8.4	7.9	7.1	6.6	..	..	..	..	..	..	..	..	..	..	..	..
Real wages (% change y-y) 2/	-3.8	11.2	0.4	..	..	..	..	..	..	..	.	..	.	..	..	..
Consumer price index (% change y-y) 1/	9.8	4.8	5.1	5.4	6.4	6.8	6.8	5.9	4.7	4.1	3.7	3.8	3.7	3.6	4.0	4.5
Public Sector 2/																
Government revenues (% GDP)	19.8	15.5	15.5	16.2	15.9	..	..	..	..	..	..	..	.	..	.	..
Government expenditures (% GDP)	19.9	17.0	16.2	17.4	18.2	..	..	..	..	..	..	..	..	..	..	..
Government balance (% GDP)	-0.1	-1.6	-0.7	-1.2	-2.2	.	..	..	..	..	..	..	..	..	..	.
Domestic public sector debt (% GDP)	15.7	14.9	14.0	13.4	..	..	..	..	..	..	..	..	..	..	..	..
Government debt (% GDP)	33.0	28.4	26.1	24.3	23.1	..	..	..	..	..	..	.	..	.	..	..
Foreign Trade, BOP and External Debt																
Trade balance (billions US$) 3/	9.9	21.2	21.3	23.2	15.4	18.7	6.6	6.3	7.0	3.3	1.5	..	..	..	..	..
Exports of goods (billions US$) 4/	139.6	119.6	158.1	200.6	..	..	45.8	51.8	52.5	50.6	48.2	17.1	15.6	15.7	17.3	..
(% change y-y)	18.3	-14.3	32.1	26.9	..	..	30.6	38.3	32.1	10.5	5.2	1.5	6.6	8.9	5.5	..
Key export (% change y-y) 5/	27.5	-35.0	39.0	32.1	..	..	33.9	32.1	45.9	18.7	11.3	.	..	.	..	..
Imports of goods (billions US$) 4/	116.7	88.7	127.4	166.6	..	..	37.1	42.2	42.9	44.2	44.7	16.5	14.6	14.9	16.4	..
(% change y-y)	36.9	-24.0	43.7	30.8	.	..	32.0	37.8	33.5	20.8	21.2	25.3	15.9	26.5	13.4	..
Current account balance (billions US$)	0.1	10.6	5.1	1.7	-4.1	-1.7	2.1	0.5	0.5	-0.9	-2.9	..	..	..	..	..
(% GDP)	0.0	2.0	0.7	0.2	-0.4	-0.2	1.0	0.2	0.2	-0.4	-1.3	..	..	..	..	..
Inward FDI (billions US$)	9.3	4.9	13.8	18.9	..	..	5.0	6.3	3.3	4.3	4.6	..	.	..	..	..
External debt (billions US$)	155.1	172.9	202.4	224.8	..	..	210.1	222.8	224.5	224.8	..	224.8	230.5	229.3	..	..
(% GDP)	30.4	32.0	28.6	26.5	..	..	26.6	26.2	25.1	26.4	..	.	..	..	..	..
Foreign exchange reserves, gross (billions US$)	51.6	66.1	96.2	110.1	..	..	105.7	119.7	114.5	110.1	110.5	110.1	112.0	112.2	110.5	..
(months of imports of g&s) 6/	4.3	7.1	7.5	6.7	..	..	7.8	8.1	7.3	6.7	6.6	6.7	6.7	6.7	6.6	..
Financial Markets																
Domestic credit (% change y-y)	33.0	16.1	17.5	24.4	..	..	24.3	23.4	24.2	25.4	..	24.6	25.1	24.2	.	..
Short-term interest rate (% p.a.) 7/	8.7	7.1	6.5	6.6	..	..	6.7	6.8	6.8	6.2	5.8	6.0	6.0	5.8	5.8	5.8
Exchange rate (Rupiah/US$, ave)	9,699	10,390	9,090	8,770	..	..	8,863	8,569	8,836	9,024	9,079	9,088	9,000	9,085	9,180	9,190
Real effective exchange rate (2000=100)	142.3	142.3	160.4	160.1	..	..	158.7	160.9	161.3	159.4	159.3	159.8	159.7	159.4	158.7	..
(% change y-y)	8.7	0.0	12.7	-0.2	..	..	-2.4	-1.0	1.6	0.5	-1.0	0.6	1.5	0.4	-0.7	..
Stock market index (Aug. 1982=100) 8/	2,088	2,014	3,095	3,746	..	..	3,519	3,848	3,841	3,776	4,016	3,822	3,942	3,985	4,122	4,180.7
Memo: Nominal GDP (billions US$)	510.2	539.6	708.1	846.8	958.4	1,127.2	197.5	212.8	223.6	212.9	217.0	..	..	..	..	..

Source: National data sources
f = forecast
1/ Average
2/ Central government data. **Government revised Budget for 2012.**
3/ Goods and services trade balance
4/ Goods trade on BOP basis from Bank Indonesia for annual and quarterly series, while monthly figures from BPS.
5/ Crude oil and gas exports
6/ Based on average imports of goods and services over past year
7/ Bank Indonesia Policy rate
8/ Jakarta Composite Index, end of period



Population	6.2 million
Population growth	1.4 percent
GDP (PPP, int'l US$ billions)	15.8
GDP per capita (PPP, int'l US$)	2,367
Surface area	236,800 sq. km
Capital	Vientiane

Source: World Development Indicators

Lao PDR enjoys a positive economic outlook in 2012, given expectations that the economy will expand by 8.3 percent, slightly above the growth seen in 2011. Growth is driven by mining, construction, services, agriculture, and—to a lesser extent—manufacturing. An expansion of existing projects and as well as new projects in the mining sector is seen driving its contribution to a brighter growth outlook, while the construction sector will also boost economic growth through works associated with preparations for the 9th Asia-Europe Meeting (ASEM)[27]. Additionally, the service sector will benefit from higher wholesale and trading, including tourism as well as transport and telecommunication, and agricultural output is expected to rebound after the adverse impacts of storms in 2011. Finally, the manufacturing sector will benefit from additional demand for cement, construction materials, food, and beverages. The medium-term growth outlook remains subject to uncertainty as a result of external developments in commodities prices, developments in the Euro zone, and a slowdown in China.

Headline inflation has trended lower since November 2011 as a result of lower food and fuel prices. The headline inflation rate fell from 7.9 percent (year-on-year) in November 2011 to 5.3 percent in March 2012. Food inflation has declined from 10.7 percent to 8.2 percent in the same period as lower rice prices offset the relatively high price of meat. Energy prices continue to rise but at a slower pace compared to last year. This slowdown drove energy inflation downward in March. Core inflation has also trended down toward 3 percent year-on-year in March.

The fiscal deficit for the 2011/2012 fiscal year is expected to rise to 3.2 percent of GDP, compared with 2.7 percent in FY10/11, as the budget will feature increased exposure to hydropower and mining revenues. Total revenue is projected to grow moderately, driven by higher grants receipts. Domestic revenues will remain at the same level as a share of GDP (16.9 percent in FY11/12) driven by resource sector revenues as a result of high commodity prices (copper and gold) and the completion of project expansion in the mining sector.

Non-resource sector revenue, however, is expected to be lower than GDP growth, bringing the share of non-resource sector revenue to GDP down from 13.2 percent to 12.6 percent over the same period. As a result, coupled with expected increased expenditures, the non-resource and non-mining deficits are expected deteriorate from 10.7 percent and 10.0 percent in FY10/11 to 12.6 and 11.6 percent in FY11/12 respectively.[28]

27 The 9th ASEM Summit will held on November 5–6, 2012 in Lao PDR. Projects for preparation include the construction of a convention center and villas, and the expansion and upgrading of the Vientiane airport.

28 The non-resource fiscal deficit indicates the extent to which domestic revenue outside the mining and hydro power sectors may finance total government expenditures. This indicator also reflects revenue performance in the non-resource sector. The non-mining fiscal deficit indicates to what extent government spending is exposed to volatility associated with commodity (gold and copper) prices. Revenue from hydropower sector is considered more stable as purchase agreements are made in advance with fixed prices.

Total fiscal outlays are projected to rise from 23.9 percent in FY10/11 to 25.2 percent in FY11/12 as a result of capital spending on flood recovery[29], preparation for ASEM, and poverty reduction projects. The government remains committed to curbing any off-budget spending, while past off-budget commitments should be re-paid on-budget, as cited in the FY12/13 budget preparation instructions. Higher recurrent expenditures are expected with targeted increases in wages and compensation and allowances following the government's policy of promoting the expansion of social public services to remote areas.

The overall balance of payment is projected to improve in 2012 due to a reduction in the non-resource sector deficit of external payments. The balance of payment surplus of the resource sector is expected to moderately decline following higher income repatriation (from mining), which outpaces the expansion of direct investments and the trade surplus. Capital imports are likely to increase due to strong investments by large power projects.[30] Outside the resource sectors, the balance of payment is in deficit, but it likely will improve this year as investment inflows will outweigh a slight deterioration of the non-resource current account deficit. On the trade side, larger imports of consumption and capital goods, some of which are attributable to the preparations for the 9th ASEM Summit in 2012, will lead to deterioration in the trade deficit. This will be partly financed by higher foreign investments in hotels, manufacturing, and construction, as well as expected higher inflows through the Lao Stock Exchange as a result of the planned capital increase in one of the two listed companies.

The government continues to follow a policy of a stabilized exchange rate against major currencies. In the past six months (Oct 2011 – Mar 2012), the Lao Kip appreciated by 0.3 percent against the US dollar due to strong demand and to inflows of foreign exchange associated with investments and export receipts. The Lao Kip also appreciated against the Thai Baht by 1 percent during the same period, mostly because of the depreciation of the Baht against the dollar.

After a rapid expansion over the past years, credit growth to the private sector slowed in 2011. Credit growth fell from almost 34 percent year-on-year in 2010 to 23 percent in 2011. However, lending to state owned enterprises increased moderately in 2011 from 12.4 percent in 2010 to almost 15 percent year-on-year in 2011, partly due to loans to Lao Airlines to finance the purchase of 2 Airbus aircraft. Non-performing loans are reported to have declined to 2.2 percent in 2011 from 3.2 percent 2010.

There were a number of key reforms in 2011. On the public finance front, the General Tax Law was revised and approved by the National Assembly in 2011, introducing a transparent, turnover-based presumptive tax regime for businesses with a turnover below the VAT registration threshold. It also eliminated the minimum business tax. Treasury zero-balance accounts reform has moved forward, supported by the transfer of all major large accounts at the central level and technical revenues accounts into the National Treasury's control. Customs revenue management is also expected to benefit from the full deployment of the ASYCUDA World system currently in place at Lao PDR's largest border checkpoint at Thanaleng/Friendship Bridge 1. Additionally, the National Assembly passed a revised Customs Law in December 2011.

The Ministry of Industry and Commerce also updated the Diagnostic Trade Integration Study and its Action Matrix that lays out the framework for the next phase of trade-related reforms. The process for acceding to the World Trade Organization achieved a solid momentum with the conclusion of negotiations with the EU and the US. Finally, in October 2011 the one-stop service (as stipulated in the Enterprise Law and the new Investment Promotion Law) was implemented, allowing new businesses to apply for a unified business registration directly at the Ministry of Industry and Commerce.

29 This is the result of the Haima and Nockten storms last year.

30 e.g. Hongsa Lignite project, Nam Ngum 5, Nam Ngum 3 and Nam Ngiep 1, Huay Lam Phanh Yai, Nam Khan 2,etc

Lao PDR Key Indicators

	2008 Year	2009 Year	2010 Year	2011e Year	2012f Year	2013f Year
Output, Employment and Prices						
Real GDP (% change y-y)	7.6	7.5	8.5	8.0	8.3	7.5
Consumer price index (% change y-y)	7.6	0.1	6.0	7.5	6.0	6.0
Public Sector 1/						
Government balance (% GDP) 2/	-2.7	-7.1	-5.0	-2.7	-3.2	-4.4
Foreign Trade, BOP and External Debt						
Trade balance (millions US$)	-871	-726	-424	-827	-1,038	-1,426
Exports of goods (millions US$)	1,451	1,489	2,149	2,644	3,077	3,211
(% change y-y)	19.4	2.6	44.3	23.0	16.4	4.4
Key export (% change y-y)	12.1	8.7	50.1	24.3	18.0	4.5
Imports of goods (millions US$)	2,291	2,215	2,573	3,472	4,115	4,637
(% change y-y)	22.2	-3.3	16.2	34.9	18.5	12.7
Current account balance (millions US$)	-774	-501	-380	-832	-1,209	-1,658
(% GDP)	-14.6	-8.8	-5.5	-10.3	-12.8	-15.9
Foreign direct investment (millions US$)	933	848	770	1,157	1,580	1,962
External debt (millions US$)	5,363	6,050	6,574	7,420	8,612	9,958
(% GDP)	97	102	92	86	90	97
Debt service ratio (% exports of g&s)	11.0	11.8	13.4	12.8	10.8	10.3
Foreign exchange reserves, gross (millions US$) 3/	626	633	730	679	681	807
(months of imports of g&s)	3.1	3.3	3.2	2.2	1.9	2.0
Financial Markets						
Domestic credit (% change y-y) 4/	84.6	90.7	46.0	38.2	32.9	26.5
Short-term interest rate (% p.a.) 5/	10.5	7.0	7.0	7.0	..	.
Exchange rate (Kip/US$, ave)	8,635	8,516	8,259	8,052	7,932	7,900
Real effective exchange rate (2000=100)	111.5	118.1	122.3	127.2	..	.
(% change y-y)	8.5	5.9	3.6	4.0	.	
Memo: Nominal GDP (millions US$)	5,319	5,722	6,967	8,080	9,427	10,395

Source National data sources
e = estimate
f = forecast
1/ Fiscal year basis
2/ After grants
3/ Excluding gold
4/ Excluding government lending funds
5/ Treasury bill rate

MALAYSIA

Population	28 4 million
Population growth	1 6 percent
GDP (PPP, int'l US$ billions)	418 4
GDP per capita (PPP, int'l US$)	13,852
Surface area	329,740 sq km
Capital	Kuala Lumpur

Source World Development Indicators

The Malaysian economy grew by 5.1 percent in 2011, driven by robust domestic demand. Public consumption picked up more than expected toward the end of the year, and contributed 2.2 percentage points to the yearly growth figure due to bonus payments to civil servants. Investment also expanded robustly. Private investment grew by 14.1 percent, the fastest rate since 2002. Public investments contracted due to lower capital expenditures from the general government, whereas non-financial public enterprises expanded investments substantially (national oil company PETRONAS alone accounted for over one-quarter of the growth in total gross fixed capital formation). Private consumption spending remained strong, sustained by solid consumer credit, civil service bonus payments, and firm commodity prices benefiting smallholders. Inventories were a drag on growth, as the post- financial crisis restocking cycle had been completed.

Exports and manufacturing production remain in a two-speed mode. Production and export growth were sustained in petroleum, palm oil, and rubber based products, although crude oil exports suffered from ongoing production bottlenecks afflicting the mining sector. Meanwhile, electrical and electronics production and shipments continued to face headwinds from weak global demand and supply disruptions in Japan and Thailand. Although commodity-related exports have gained share in Malaysia's trade basket, most exports are still "non-commodities" and remain highly vulnerable to developments in advanced economies.

Unemployment held steady at close to 3 percent but real wages made only modest gains. Job creation was healthy, accommodating new workers and a higher participation rate. The two-speed pattern of growth in manufacturing was reflected in real wages, with higher wage growth seen in resource-intensive manufacturing industries yet not in electrical and electronics.

Inflation started to decline over the course of 2011 as a result of stabilizing food prices and falling transport costs. Consumer price inflation closed the year at 3.0 percent, slowing from a peak rate of 3.5 percent in June. While substantial price controls and subsidies tend to mask price pressures, a decline in producer price inflation confirms that price pressures are easing.

Higher-than-forecast revenue collection reined in the federal government's deficit, which came in at 5.0 percent of GDP, better than the 5.4 percent projected in the budget. Healthy revenue collection was predicated on higher oil prices but there were notable increases in non-oil revenues. Operating expenditures outgrew revenue but were partly offset by lower development expenditures as post-crisis fiscal stimulus was unwound. As a result, the deficit and public debt levels were better than expected.

The gradual return of monetary policy to pre-crisis settings was put on hold in the second half of the year. With earlier rate hikes only partially offsetting previous rate cuts, the policy interest rate remained supportive of growth and credit expansion was healthy. The authorities turned to prudential measures to ensure sustainable credit expansion, especially to lower-income households.

The current account remained in surplus on strong commodity-related receipts. Capital flows were volatile, with large inflows earlier in 2011 partly reversed in September and October. Reserves were relatively stable and, overall, the ringgit appreciated slightly in 2011.

The Malaysian economy is expected to post steady, though slower, growth in 2012. Investment is likely to expand further on increased investment in oil and gas and the implementation of "entry-point projects" under the government's transformation plans, such as mass rapid transit (MRT). Private consumption is projected to remain resilient overall, although flat or lower commodity prices and prudential measures to reduce credit growth are likely to keep growth at similar levels from 2011. Government consumption is expected to moderate, while inventories will be a drag. Net exports will subtract from growth as strong domestic demand, combined with moderate export growth, will lead to faster growth in imports, especially of capital and consumer goods. Overall, GDP growth is expected to come in at 4.6 percent in 2012 and, assuming a continuation of the global recovery, 5.1 percent in 2013.

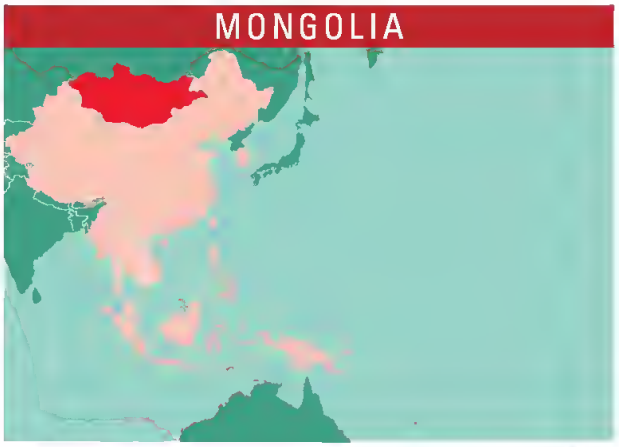
Downside risks have eased but persist. Given Malaysia's export orientation and high correlation of non-commodity exports, ongoing risks to the global recovery constitute risks for Malaysian growth. Further increases in oil prices are generally beneficial, but bring challenges as well.

There is momentum to the government's reform agenda, but implementation could be accelerated The government's transformation programs registered notable progress, but the challenge now is to go beyond quick wins and accelerate the implementation of more difficult—but critical—structural reforms that lie at the core of boosting the economy into high-income levels. Implementation can be assisted by increasing the coordination of related reform efforts (such as safety nets and education), building capacity within the civil service to lead reforms, and working towards consensus in key areas such as educational reform, subsidy rationalization, and broadening the tax base.

Malaysia Key Indicators

	2009	2010	2011	2012f	2013f	2011				2012	2011	2012			
	Year	Year	Year	Year	Year	Q1	Q2	Q3	Q4	Q1	Dec	Jan	Feb	Mar	Apr
Output, Employment and Prices															
Real GDP (% change y-y)	-1.6	7.2	5.1	4.6	5.1	5.2	4.3	5.8	5.2	..	..	..	..	..	..
Industrial production index (2005=100)	99.9	107.1	108.6	..	..	107.7	106.1	109.6	111.0	..	112.0	108.9	109.1	114.5	..
(% change y-y)	-7.6	7.3	1.4	..	..	2.4	-1.6	2.0	2.7	..	2.9	0.3	8.2	0.6	..
Unemployment (%)	3.6	3.2	3.1	..	..	3.1	3.1	3.1	3.1	..	3.1	3.0	3.2	.	..
Consumer price index (% change y-y)	0.6	1.7	3.2	2.8	3.0	2.8	3.3	3.4	3.2	..	3.0	2.7	2.2	2.1	..
Public Sector															
Government revenues (% GDP) 2/	23.3	20.8	21.7	..	..	..	..	..	..	..	..	..	..	..	..
Government expenditures (% GDP) 2/	30.3	26.5	26.7	..	..	..	..	..	..	..	..	..	..	..	..
Government balance (% GDP) 2/	-7.0	-5.6	-5.0	-4.7	-4.0	..	..	..	..	..	..	..	..	..	..
Domestic public sector debt (% GDP) 2/	53.3	53.1	53.5	53.2	52.5	54.6	53.9	52.8	53.5	..	..	..	..	..	..
Foreign Trade, BOP and External Debt															
Trade balance (billions US$) 3/	41.6	42.5	46.1	..	..	12.1	11.8	11.8	10.5	..	..	..	..	.	..
Exports of goods (billions US$)	157.6	199.2	227.7	..	..	54.7	56.9	58.5	57.6	..	19.2	17.7	18.8	20.3	..
(% change y-y)	-21.1	26.4	14.3	..	..	5.3	9.9	11.7	9.7	..	6.1	0.4	14.5	-0.1	..
Key export (% change y-y) 4/	3.5	5.3	13.7	..	.	25.2	11.7	13.5	4.5	..	2.3	-12.5	-21.3	-10.2	..
Imports of goods (billions US$)	117.3	157.3	178.8	..	..	42.2	44.9	45.9	45.8	..	16.6	14.9	15.3	16.9	..
(% change y-y)	-20.8	34.1	13.7	..	..	13.5	6.9	6.0	8.7	..	10.4	3.3	18.0	1.6	..
Current account balance (billions US$)	31.9	27.4	32.0	..	..	8.5	7.8	8.8	7.0	..	..	..	..	..	..
(% GDP)	16.5	11.5	11.5	11.1	10.6	12.7	11.1	12.3	9.9	..	..	..	..	..	..
Foreign direct investment (billions US$) 5/	1.4	9.1	10.8	..	..	3.6	3.4	1.7	2.1	..	..	..	..	.	..
External debt (billions US$)	66.2	70.7	84.1	..	..	76.6	80.1	87.2	81.7	..	..	..	..	..	..
(% GDP)	34.2	29.6	30.2	..	..	30.5	30.4	31.9	29.3	..	..	..	..	.	..
Short-term debt (billions US$)	22.0	24.7	34.0	..	..	29.9	30.6	34.9	33.0	..	..	..	..	..	..
Debt service ratio (% exports of g&s)	6.5	7.6	10.3	..	..	10.0	8.4	12.6	10.3	..	..	..	..	..	..
Foreign exchange reserves, gross (billions US$)	96.7	106.5	133.6	..	..	113.8	134.3	131.0	133.6	..	133.6	134.1	134.7	135.7	135.9
(months of imports of g&s)	6.2	5.5	6.1	..	..	5.4	6.1	5.8	6.0	..	..	..	..	..	..
Financial Markets															
Domestic credit (% change y-y) 6/	9.2	11.3	13.2	..	..	12.7	13.6	13.3	13.1	..	13.6	12.1	11.9	12.2	..
Short-term interest rate (% p.a.) 7/	2.0	2.5	2.9	..	..	2.8	2.9	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Exchange rate (Ringgit/US$, eop)	3.42	3.08	3.16	..	..	3.03	3.02	3.19	3.18	3.07	3.18	3.05	3.00	3.07	3.03
Real effective exchange rate (2000=100) 8/	95.1	100.0	99.9	..	..	101.8	100.3	99.6	97.8	100.6	98.2	99.7	101.1	101.1	100.2
(% change y-y)	-3.1	5.2	-0.1	..	..	5.5	-1.0	-2.6	-2.2	-1.1	-2.1	-2.5	-0.7	-0.2	-0.5
Stock market index (1 Jan 1977=100) 9/	1,090	1,379	1,509	..	..	1,545	1,579	1,387	1,531	1,596	1,531	1,521	1,570	1,596	1,571
Memo: Nominal GDP (billions US$)	193.4	238.4	278.9	..	..	67.0	69.6	71.8	70.5	..	..	.	..	.	..

Source: National data sources, World Bank staff estimates.
f = forecast
1/ Manufacturing wages only
2/ Federal government only
3/ Balance of Goods and Services
4/ Thermionic Valves & Tubes, Photocells etc
5/ Inward FDI
6/ Total loans in the banking system
7/ Overnight Policy Rate (OPR)
8/ Source: BIS
9/ FTSE Bursa Malaysia Composite



Population	2 7 million
Population growth	1 6 percent
GDP (PPP, int'l US$ billions)	11.1
GDP per capita (PPP, int'l US$)	3,825
Surface area	1,566,500 sq km
Capital	Ulaanbaatar

Source World Development Indicators

Economic growth accelerated to 17.3 percent in 2011 from 6 4 percent in 2010 and the unemployment rate fell to 9 percent from 13 percent, spurred by the development of the Oyu Tolgoi mine, one of the world's largest copper and gold mines, and rising coal exports to China. There are growing concerns that the economy is overheating, with inflation steadily accelerating since the middle of last of last year and reaching 17.3 percent in March in Ulaanbaatar. Sharply rising government spending is the root cause of this overheating; spending rose by 56 percent in 2011 and is budgeted to rise by a further 32 percent this year, fueled by growing mineral receipts. This pro-cyclical fiscal policy could result in another "boom-and-bust" cycle in Mongolia In addition, the country is heavily exposed to deterioration in the external environment as government revenues remain vulnerable to volatility in commodity prices.

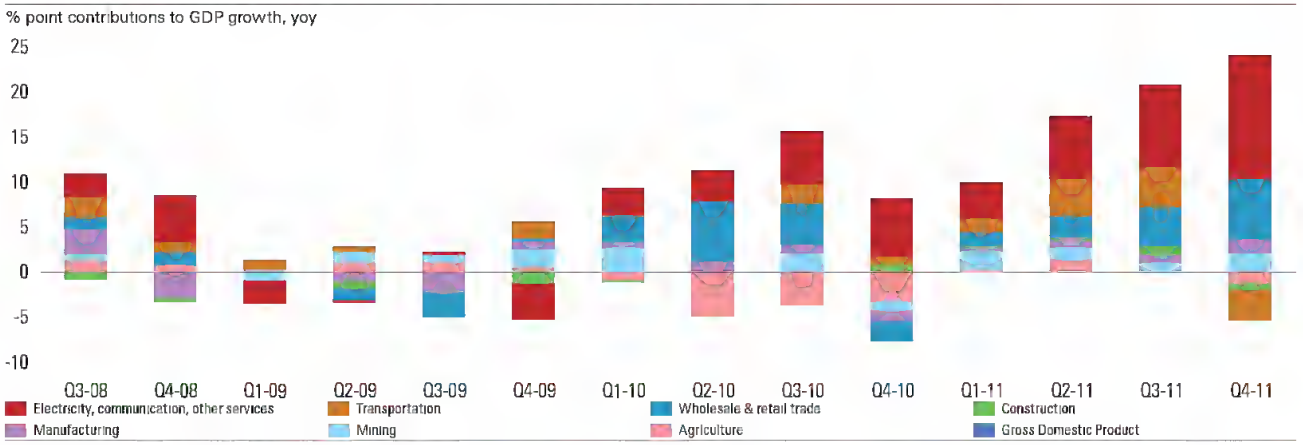
High levels of government spending in 2011 and 2012—spending is projected to rise to MNT 6,309 billion in the 2012 budget, close to total GDP in 2009 in absolute terms—mainly reflect pre-election year pressures, efforts to fulfill political promises for large cash transfers, and large increases in capital expenditures As a result of high revenues, the overall 2011 deficit was contained at 3.6 percent. However, the structural deficit (based on long run commodity prices as defined under Mongolia's Fiscal Stability Law) was much higher at 5.8 percent. The 2012 budget projects an overall deficit of 1 percent, with a structural deficit of 3 percent, with the difference saved in the Fiscal Stability Fund.

The Development Bank of Mongolia, which was set up last year to finance infrastructure projects and which is backed by a full sovereign guarantee, successfully introduced its first foreign currency bond offering in March. The five-year US$580-million bond offering drew orders of US$6.25 billion, with a yield of 5.75 percent much lower than the initial guidance of 6–6.25 percent. Along with US$20 million raised through a private placement at the end of 2011, the latest offering completes the Bank's US$600-million program of issuance to fund several key projects including roads and railway links necessary for facilitating minerals production and exports.

On the monetary front, the Bank of Mongolia took significant action to curb inflation and lending growth in 2011, raising the benchmark rate three times (by a total of 125 basis points to 12.25 percent) in October. In March, it raised the policy rate by a further 50 basis points. But with inflation continuing to rise, policy is still very loose and with bank lending expanding at a staggering pace (62 percent year-on-year in February), more tightening is needed. Liquidity risks are also rising and non-performing loan levels are large. Given the easy convertibility between dollar and local currency accounts, the banking system remains vulnerable to capital flight if macro-prudential action is not taken to strengthen it. Such action could include, in addition to the recently-introduced additional capital buffers for systematically important banks, the use of additional provisioning requirements for highly volatile sectors such as construction, mortgage, and consumer loans.

The Togrog depreciated by 11 percent toward the end of 2011, reflecting high domestic inflation and declining commodity prices. Going forward, exchange

The economy is expanding at a furious pace and overheating concerns are mounting



Sources NSO and World Bank staff estimates

rate flexibility remains crucial. It will reduce the risk of one-way speculative bets on the currency and allow the economy to better absorb external shocks such as commodity price shocks without transmitting these directly to budgetary and export revenues, as in the previous "bust" in 2008. More significantly, it will help the economy adjust through movements in the nominal exchange rate rather than through sharp cuts in domestic wages, employment, and prices that hurt the real incomes and profits of workers and businesses. Finally, exchange rate flexibility is desirable in that it will reduce incentives for the private sector or banks for taking on unhedged risk.

The trade deficit reached record levels (US$1.9 billion in February, 12-month rolling sums) as imports of mining-related equipment and fuel imports surged. But exports also grew strongly, reaching US$4.9 billion in February (12 month rolling sums) from US$3.0 billion a year ago, supported almost entirely by coal shipments to China. The current account deficit widened to 35 percent of GDP in 2011 from 14 percent the year before, but was fully funded by record foreign direct investment inflows of US$5.3 billion, representing almost 62 percent of GDP.

There have been major legislative developments in 2011 and early 2012 aimed at strengthening policy institutions and frameworks. The Integrated Budget Law, passed in December 2011, is a comprehensive law that reforms the entire budget process from public investment planning to budget execution and auditing, secures the implementation of the Fiscal Stability Law, and fully accounts for contingent liabilities, including those from the Development Bank of Mongolia. It also strengths the public investment framework by requiring feasibility studies and alignment with national priorities for projects to be included in the Public Investment Program and the budget. This will help permanently lock in prudent fiscal policies and mechanisms in the future alongside the Fiscal Stability Law. Meanwhile the Social Welfare Law was passed in early January 2012. This mandates the provision of a targeted poverty benefit to replace the existing system of universal cash transfers. This represents a major step towards setting up a fiscally-sustainable social protection system while supporting Mongolia's poor. It is expected to reach about 130,000 of the poorest households, or one-fifth of all households, in Mongolia.

Although exports and revenues will be permanently boosted once the Oyu Tolgoi mine begins production at the end of 2012, net revenues from the mine are expected to enter the budget only after repayment of advance payments and mine-related investment share borrowing from mining companies. Fiscal space will remain constrained in the near term by loan repayments to the International Monetary Fund (IMF) and Development Bank of Mongolia bonds. Despite an improvement in the global economic environment

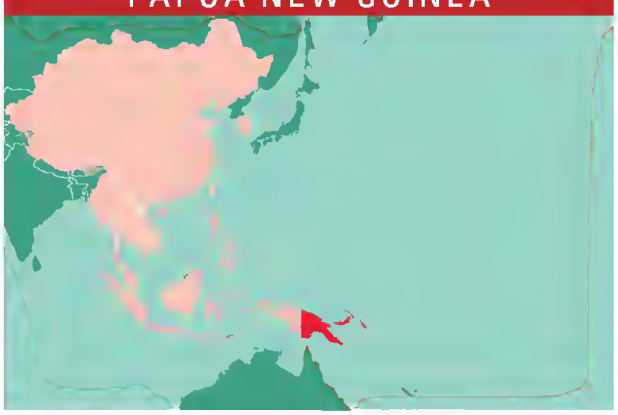
since the end of last year, it remains vulnerable to developments in the Euro zone and the US, while the upcoming elections in Mongolia increase domestic uncertainty. Accordingly, until a substantial amount of savings has accumulated in the stabilization fund, Mongolia remains exposed to volatility in commodity prices. To ensure macroeconomic stability and to prevent a hard landing for the economy in case of an adverse external shock, Mongolia needs to adhere strictly to prudent fiscal policies as set out in the Fiscal Stability Law and the Integrated Budget Law. It should also seek to tighten both fiscal and monetary policy to reduce inflation, take macro-prudential action to reduce systemic risks in the banking sector, and maintain a flexible exchange rate that will act as the first buffer if any external shock materializes

Mongolia Key Indicators

	2008 Year	2009 Year	2010 Year	2011 Year	2012f Year	2013f Year
Output, Employment and Prices						
Real GDP (% change y-y)	8.9	-1.3	6.4	17.3	17.2	11.8
Industrial production index	113.0	109.6	120.5	132.2	145.4	162.8
(% change y-y)	2.7	-3.3	9.9	9.7	10.0	12.0
Consumer price index, Ulaanbaatar (% change y-y, eop)	23.2	1.9	14.3	11.1	18.0	12.0
Public Sector						
Government expenditures (% GDP) 1/	37.6	35.2	36.6	44.2	39.1	34.1
Government revenues (% GDP) 1/	33.1	30.2	36.6	40.6	38.1	33.1
Government balance (% GDP) 1/	-4.5	-5.0	0.0	-3.6	-1.0	-1.0
Non-mineral government balance (% GDP)	-14.1	-12.4	-10.5	-16.0	-11.9	--
Total public sector debt (% GDP) 2/	31.0	49.4	42.2	38.6	37.1	27.3
Foreign Trade, BOP and External Debt						
Trade balance (millions US$)	-627	-229	-379	-1747	-700	265
Exports of goods (millions US$)	2,535	1,903	2,899	3,825	4,680	5,288
(% change y-y)	30.0	-24.9	52.4	31.9	22.4	13.0
Imports of goods (millions US$)	3,147	2,131	3,278	4,874	5,290	4761
(% change y-y)	57.1	-32.3	53.8	53.4	8.5	-10.0
Current account balance (millions US$)	-722	-592	-887	-2,587	-2,664	-269
(% GDP)	-12.9	-12.9	-14.3	-15.1	-13.8	-1.8
Foreign direct investment (millions US$)	838	1,038	1,630	5,310	1,500	1,200
External debt (% GDP) 3/	31.0	43.3	30.3	22.8	19.8	14.7
Foreign exchange reserves, gross (millions US$) 4/	637	1,145	2,091	2,407	..	..
(month of imports of g&s)	3.7	4.2	5.1	5.6	..	..
Financial Markets						
Domestic credit (% change y-y)	59.1	-9.3	26.7	75.8	45.0	..
Short-term interest rate (% p.a.) 4/	9.8	10.0	11.0	12.8	..	..
Exchange rate (Tugrik/US$, eop)	1,267	1,443	1,257	1,265	..	..
Real effective exchange rate (% change y-y)	13.7	-15.5	26.9	-4.6	..	..
Stock market index, Top 20 (Dec. 2000=100)	1182	1229	2931	4254	..	..
Memo: Nominal GDP (millions US$)	5,174	4,587	6,694	8,562	..	..

Sources: Bank of Mongolia, National Statistical Office, Ministry of Finance, IMF and World Bank staff estimates
f = forecast
1/ Estimates for 2012 are from the approved 2012 budget
2/ Based on 2011 IMF-World Bank Debt Sustainability Analysis (DSA)
3/ On public and publicly guaranteed debt (2011 DSA)
4/ Base policy rate, March 2012

PAPUA NEW GUINEA



Population	6.8 million
Population growth	2.3 percent
GDP (PPP, int'l US$ billions)	17.0
GDP per capita (PPP, int'l US$)	2,323
Surface area	462,840 sq. km.
Capital	Port Moresby

Source World Development Indicators

The economy of Papua New Guinea (PNG) continued to expand strongly through the second half of 2011 and into early 2012, with the pace of growth likely to be near its peak for this upswing. Over 2011, the economy is likely to have expanded by 9-to-10 percent, driven by the direct and spin-off investments associated with future resource production, high commodity prices, and supportive agricultural conditions, as well as government spending. The strength of these drivers is likely to have peaked around the turn of 2012, especially as the stronger Kina and weakening global commodity prices start to drag rural incomes and government revenues.

Growth in prices across the economy, while still strong, has moderated. As a key first step in strengthening economic management in the face of an anticipated resource revenue boom, the legal framework for a Sovereign Wealth Fund to manage PNG's minerals revenues was adopted.

Ongoing construction of the PNG-LNG (liquefied natural gas) project continued to be the major factor driving PNG's economic expansion. The US$15.7 billion investment has reached its peak of activity, and is shifting from largely civil works to higher-skilled engineering works (e.g., skilled welding). The project managers report construction of some key components to be ahead of schedule, while others are near schedule, but disruptions are affecting some areas of the work. The first gas delivery is still expected in late 2014. Meanwhile investments in new capacity for various upstream inputs—ranging from technical training of workers, to new airfields and trucking operations, through to hotels and catering—are reaching final stages or entering operation, expanding the economy's capacity and stabilizing or even lowering prices of such inputs.

Meanwhile, minerals and oil and gas production continued to subtract from growth. Oil production continued to wane, some major mines were shut for temporary reasons, and openings of new mines continued to be delayed. The most significant delay, of the opening of the Ramu nickel-cobalt mine, appears to have been resolved as court cases around landowner and environmental impact issues are cleared. The preparation of various other potential, large minerals and non-mineral investments continued, although none reached investment decision.

The 2012 budget raises spending to PGK 10.5 billion, 20 percent more than 2011 projected levels. Authorities expect this to be largely funded by higher revenues and withdrawals from funds set aside in trust accounts in the 2011 supplementary budget and in earlier years. Overall, this implies a small deficit of around 1.5 percent of GDP after accounting for funds withdrawn from trust accounts. The government presents its budget as balanced by not counting these as an expense in the current year.

Centerpieces of the 2012 budget were the expanded tuition-fee free education subsidy and an increase in the threshold for paying income tax. Parents are no longer charged tuition fees for children in Years 1 through 10, and those in Years 11, 12, and in vocational education receive a 75 percent tuition fee subsidy, though parents still incur various other non-tuition

related fees. Anecdotal reports suggest that this policy was largely successfully implemented at the start of the 2012 school year, despite the significant administrative and logistical challenges of ensuring all schools across the country could access the funds. The earlier waiver of tuition fees for the first years of primary schooling led to a significant increase in the enrollment of girls. Additional funds were allocated for regional roads and some other capital works projects. The threshold for paying income tax was raised from PGK 7000 to PGK 10,000, placing it above the minimum wage. The tariff reduction program was extended to intermediate goods such as meat, flour, shoes, and steel, and could contribute toward a reduction in inflationary pressures.

Official public debt levels, near 25 percent of GDP, are assessed to be sustainable, and the underlying dynamics are favorable. These debts only include those currently on the government's balance sheet, not the debt used to fund the government's equity share in the PNG-LNG project, due in 2014, or its superannuation liabilities, nor various contingent liabilities such as the completion guarantee over the LNG project. Together these raise current debt levels by 15-to-20 percent of GDP. In a shift from previous arrangements, the government is funding its PGK 900-million equity contribution for the increased construction cost of the LNG project by issuing more government bonds in the domestic market. Even counting these liabilities, and assuming the LNG and part of the pipeline of additional projects do go ahead, the government's finances appear to be sufficiently robust to support modest budget deficits by mid-decade before the LNG project starts to generate significant fiscal revenues towards 2020.

The government took an important step towards improving the effectiveness with which natural resource revenues are translated into public goods and services by passing the organic law (requiring a constitutional amendment) that established a PNG Sovereign Wealth Fund. The law features strong provisions on transparency, reporting and governance, and is consistent with the internationally-agreed Santiago Principles of sovereign wealth fund management. Subordinate legislation and management processes will be developed through 2012, with the aim of activating the Fund in 2013. The law features strong provisions on transparency, reporting, and governance and is consistent with the internationally-agreed Santiago Principles of sovereign wealth fund management. The government created the fund to receive all tax revenues and government dividends from natural resource revenues, and to invest these offshore. The proceeds flow back to general revenue at a rate equal to the 15-year average of minerals revenues and dividends relative to aggregate revenues. These funds are then allocated through the annual budget process into a development fund for specific projects and activities; these likely will include infrastructure development and the recapitalization of state-owned enterprises. These funds would be largely held offshore. There is some concern that creating new planning and implementation authorities somewhat outside the central government may undermine the capacity and effectiveness of existing agencies.

Inflation, while high, appears to have peaked. The official urban consumer price inflation rate moderated from its recent peak near 10 percent in the year to the second quarter of 2011 to 6.9 percent in the year to the final quarter of 2011. Volatile prices (largely betalnut) and the stabilization in fuel prices explained much of this slowing, with underlying inflation remaining stronger, at around 7.8 percent, in the year to the fourth quarter of 2011. PNG's official CPI suffers significant composition and measurement errors that bias it downwards. This is expected to be addressed for the first time in 33 years when a new consumer price index—based on urban consumers' spending patterns recorded by the 2009/10 Household Income and Expenditure Survey—is fielded midway through 2012. Meanwhile, various anecdotal reports suggest that other prices are slowing or declining. Employers are less often highlighting growth in employment costs, or resorting to bidding wars to retain skilled labor. Prices for all types of higher-end and commercial real estate in the main urban centers appear to be stabilizing or even falling as new supply responds to the earlier surge in demand and vacancy rates start to rise. Additional new supply of residential and commercial land, and training of workers, will help further unwind earlier extreme price rises.

Since mid-2011, the central bank has largely relied on the appreciating exchange rate to manage inflation. The Kina appreciated to near 2 Kina per US dollar in March 2012, a strengthening of 9 percent in six months and 25 percent in a year. In nominal terms, this is its strongest rate against the US currency since commodity prices collapsed in the wake of the Asian financial crisis in the late 1990s. In real effective terms, the exchange rate rose to 10 percent above its peak before the Kina was de-pegged in 1994. The Bank of Papua New Guinea (BPNG) restrained this appreciation by also accumulating foreign exchange reserves, which reached US$4.3 billion in December 2011 and remained around this level through the first quarter of 2012. This compares with just over US$3 billion in reserves a year earlier. Meanwhile BPNG has held its main policy interest rate, the Kina Facility Rate, at 7.75 percent after raising it 75 basis points earlier in this year. The central bank also increased banks' minimum reserve requirements from 4 to 6 percent in mid 2011, and then to 7 percent in late March 2012. While banks report that the higher reserve requirement raises their costs, it appears to have had little impact on interest rates for loans, deposits, or short-term paper. At times, BPNG has worked to absorb the growth in liquidity generated by the rise in foreign exchange reserves by issuing more paper, but it has also repeatedly and unsuccessfully asked fiscal authorities to support this by shifting the government's sizeable cash holdings from commercial banks to the central bank.

In other financial developments, BPNG issued the country's first mobile banking license as major retail banks also trialed new banking platforms designed to enable access to financial services, particularly savings accounts, for PNG's largely rural and often remote population. These services combine mobile agents using low-cost tablet computers connected with mobile phone networks to open and operate bank accounts. These innovations have the potential to dramatically deepen many Papua New Guineans' engagement with the cash economy, allowing small, rural farmers to shift from relying on opportunistic production of cash crops for cash needs to more strategic production.

Political frictions intensified between the current and former Prime Minister, ahead of national elections scheduled for mid-year. These frictions spread from the parliamentary and executive to the other branches of government, most notably the peak judicial bodies. The Chief Justice of the Supreme Court was arrested, and an Ombudsman was referred to the Leadership Commission. Local business and non-governmental organizations generally viewed these developments as a distraction rather than substantively impacting the business environment. Nonetheless, these developments have had ramifications. Standard & Poor's shifted the outlook for its rating of PNG long-term sovereign debt from stable to negative, with the risk of its rating being lowered if the political friction remains unresolved. The agency affirmed its 'B+' local and foreign currency long-term rating and 'B' short-term rating.

PNG's non-mineral economy is likely to moderate through to 2015, as construction of the LNG plant winds down, and the moderation in cash crop and other commodity prices combines with the stronger PGK to cut real incomes. Supply bottlenecks are likely to remain a significant issue for the coming 18 months, but less so than in the recent past. This stems from the introduction of new capacity and, more importantly, the fact that many Papua New Guineans are currently finding new, often temporary, jobs. These jobs are developing workers' skills that can be taken to other jobs and are bringing these workers into the cash economy. In 2014 and 2015, the start of gas production will boost GDP by as much as 25 percent, but this will only be associated with about 800 ongoing jobs.

The LNG project is expected to become a significant source of government revenues late in the decade, after the capital investment is depreciated, and will be enough to offset declining mine revenues and the closure of oil wells. A number of minerals, gas, and large infrastructure projects are currently being prepared. The knock-on effects of these projects, if approved, have the potential to become new drivers for PNG's emerging non-resource economy, and to help expand PNG's fiscal space. All are contingent on

international commodity prices and on PNG being able to maintain the past decade's gains in the stability of government and the quality of economic management. In the intervening years, as government revenues stagnate while community expectations and costs continue to rise, it will be essential that the government becomes much more effective at ensuring spending from the budget is translated into delivered education and health services, and appropriately-maintained infrastructure. This will require both better planning and implementation. The government's move towards multi-year budgets for capital projects is a step in this direction. It will also require reducing budget leakages. Stronger governance institutions can help achieve this. International experience finds these to be most effective when these are built gradually, based on existing formal and informal institutions, through a consensual process and are widely owned and respected by the community.

Papua New Guinea Key Indicators

	2008 Year	2009 Year	2010 Year	2011e Year	2012f Year	2013f Year
Output, Employment and Prices						
Real GDP (% change y-y)	6.7	5.5	7.5	9.0	7.5	4.0
Consumer price index (% change y-y)	10.7	6.9	6.0	8.5	8.0	7.0
Public Sector						
Government revenues (% GDP)	32.6	27.5	32.5	29.8	27.5	27.0
Government expenditures (% GDP)	30.1	37.0	29.5	29.4	30.0	28.0
Government balance (% GDP)	3.8	-9.5	3.0	0.4	-2.5	-1.0
Domestic public sector debt (% GDP)	31.7	32.1	26.5	25.0	23.0	21.0
Foreign Trade, BOP and External Debt						
Trade balance (millions US$)	2,675	1,253	1,582	861	1,325	2,107
Exports of goods (millions US$)	5,685	4,511	5,843	7,047	7,788	8,000
(% change y-y)	20.8	-20.7	29.5	20.6	10.5	2.7
Key export (% change y-y) 1/	16.0	-17.5	30.4	13.5	5.0	5.0
Imports of goods (millions US$)	3,148	3,258	4,261	6,186	6,463	5893.0
(% change y-y)	19.7	3.5	30.8	45.2	4.5	-8.8
Current account balance (millions US$)	674	-1,325	-2,532	-4,605	-4,374	-3247.0
(% GDP)	10.0	-16.4	-25.3	-33.0	-26.2	-18.0
Foreign direct investment (millions US$)	-31.0	764.0	1803.0	1935.0	1800.0	1400.0
External debt (millions US$)	2,047	2,144	2,391	3,185	3,978	4250.0
(% GDP)	25.6	26.6	23.9	22.8	23.8	23.6
Short-term debt (millions of US$) 2/	44	72	93	,,	,,	,,
Debt service ratio (% exports of g&s)	5.1	13.4	14.7	15.7	16.5	15.3
Foreign exchange reserves, gross (millions US$)	1,988	2,571	3,092	3,450	4,000	4,000
(months of imports of g&s)	4.4	5.6	3.8	4.5	7.4	8.1
Financial Markets						
Domestic credit (% change y-y)	15.7	37.3	5.0	10.0	12.0	15.0
Short-term interest rate (% p.a.)	5.91	7.18	7.00	7.75	7.75	7.8
Exchange rate (Kina/US$, eop)	2.68	2.70	2.64	2.16	2.05	2.1
Real effective exchange rate (2000=100)	109.4	118.0	111.7	125.0	122.0	122.0
(% change y-y)	13.4	7.8	-5.3	11.9	-2.4	0.0
Memo: Nominal GDP (millions US$)	7,997	8,060	10,004	13,967	16,716	17,989

Source: National data sources, IMF, and World Bank staff estimates
e = estimate
f = forecast
1/ Gold
2/ Banking system short-term external debt only

PHILIPPINES

Population	93.2 million
Population growth	1.7 percent
GDP (PPP, int'l US$ billions)	370.2
GDP per capita (PPP, int'l US$)	3,720
Surface area	300,000 sq. km.
Capital	Manila

Source World Development Indicators

The Philippine economy grew slower than expected at 3.7 percent in 2011, held back by weak public spending and external demand. Fourth quarter growth of 3.7 percent was slightly better than the previous quarter, with expansion continuing to be driven by remittance-fueled household consumption, which grew by 6.7 percent. The government's Disbursement Acceleration Plan, designed to speed up spending, was partially successful, contributing 1.3 percentage points to growth, though this was not enough to reach the targeted growth level of around 5 percent. On the production side, the services sector, which includes the fast-growing business process outsourcing industry, was a key driver of growth, contributing 3.2 percentage points in the fourth quarter. Industry, and in particular manufacturing exports, was buffeted by weaker demand, while agriculture suffered from typhoon-related damage.

Despite some improvements in recent months, the labor market continues to face structural issues, and poverty, hunger, and the informal economy remain prevalent. The labor market improved markedly during 2011, with 2.1 million new jobs created between October 2010 and 2011. In January, unemployment and underemployment rates fell to 7.2 percent and 18.8 percent, respectively, from 7.4 percent and 19.4 percent last year. Around 50 percent of new jobs, however, were created in the informal sector, mostly retail trade and for unskilled workers, while real wages are shrinking. These trends, together with stubbornly-high levels of poverty and hunger, reflect structural weaknesses in the labor market. In December, the self-rated hunger incidence worsened to 22.5 percent, one percent higher than the previous quarter, and an indication that around 4.5 million households experienced involuntary hunger. High levels of hunger incidence were especially pronounced in Visayas and Mindanao—two island groups that were hardest hit by Typhoon *Sendong* in December.

Robust growth in services exports and remittances helped to mitigate falling merchandise exports during 2011 and contributed to a balance of payments surplus of US$9.7 billion through December 2011. Nominal dollar remittances grew by 7 percent to US$20.1 billion in 2011 (9 percent of GDP), supporting household spending. In real peso terms, remittances have been growing since September 2011, after contracting for 12 successive months thanks to the depreciating peso. Services exports grew by 20 percent in the fourth quarter of 2011 from a year earlier, led by business process outsourcing, even as merchandise exports fell by 18 percent with a particularly sharp dip in electronics exports. Overall, the Philippine electronics sector was hit much harder than in neighboring countries—contracting by 22 percent in 2011—suggesting some structural challenges. In January, overall exports rebounded, growing by 3 percent on the back of a recovery of demand in the country's top exports markets. Meanwhile, international reserves amounted to US$77 billion, equivalent to 11.3 months of imports, through February. Riding on the country's positive outlook, the Philippine government successfully raised US$1.5 billion in global bonds in early January at a rate of 5 percent (around 200 basis points above comparable US treasuries). The issuance came after Standard & Poor's raised its outlook for the Philippines from stable to positive in December 2011.

Consumer price inflation remained manageable in 2011, averaging 4 8 percent, although this was at the high-end of the central bank's 3-5 percent target range. Domestic food price inflation, which comprises almost 40 percent of the CPI basket, continued to ease in February to a low of 1.4 percent, as the domestic supply of vegetables and global rice stocks increased. Inflation this year is expected to be lower at 3.5 percent, given cheaper and more stable prices of food, as well as fuel, electricity, light, and water. With inflation on a downward trend, monetary policy easing, which began in January, is expected to continue if downside risks to growth persist.

Although actual national government spending was lower than originally budgeted in 2011, below-target revenue collection resulted in a fiscal deficit equal to 2 percent of GDP. This still represented an improvement from the 3.5 percent deficit recorded in 2010. The implementation of transparency and accountability measures early last year resulted in slower-than-expected government spending through the third quarter In December, disbursements grew by 43 percent, with significant increases in current expenditures and areas targeted by the Disbursement Acceleration Plan. Full year capital outlays were 12 percent lower than the previous year, despite efforts to increase spending in the fourth quarter. The tax effort improved to 12.3 percent of GDP, a 0.2 percentage point increase from 2010, largely on account of improved tax administration. However, the actual contribution of the tax administration effort is estimated to be higher, at around 0 5 of a percentage point of GDP, as the present tax system is designed to lose around 0.3 of one percentage point of GDP annually due to the non-indexation of excise taxes, and losses from various tax incentives. To support spending this year, policy reforms will be needed to plug holes in the tax system.

Should the global slowdown persist, growth of around 4.2 percent and 5.0 percent in 2012 and 2013, respectively, will hinge on robust domestic demand, investment, and government spending Appropriate fiscal and monetary policy responses are expected to boost growth to targeted levels, assuming sustained growth in consumption and some improvements in investments and exports To sustain such a stimulus, higher tax revenues (through the executive's effort to strengthen tax administration and push for the immediate passage of the tobacco and alcohol excise and fiscal incentives bills) would be necessary. The country likewise needs to address the key impediments to accelerating inclusive growth through the three reform areas as follows: i) strengthening public financial management; ii) raising tax revenues efficiently and equitably; and iii) enhancing competitiveness to attract more investment. Successful public financial management reforms would not only allow the public to see more tangible improvements in governance but would also help make a better case for tax policy reforms Successful implementation of public sector reforms would allow the country to increase public investment and pro-poor spending and take advantage of new opportunities arising from the global economic rebalancing, given rising production costs in the rest of the region, including China.

Philippines Key Indicators

	2009	2010	2011	2012f	2013f	2011				2012	2011	2012			
	Year	Year	Year	Year	Year	Q1	Q2	Q3	Q4	Q1	Dec	Jan	Feb	Mar	Apr
Output, Employment and Prices															
Real GDP (% change y-y) 1/	1.1	7.6	3.7	4.2	5.0	4.6	3.1	3.6	3.7	..	..	..	..	..	..
Industrial production index (2000 = 100)	74.7	92.0	93.3	..	..	90.5	92.5	97.2	93.0	95.4	96.0	89.1	93.3	102.0	..
(% change y-y)	-11.9	23.2	3.2	..	..	12.0	1.9	3.2	-8.0	..	..	..	..	..	..
Unemployment (%) 2/	7.5	7.3	7.0	..	.	7.4	7.2	7.1	6.4	7.2	..	.	..	..	..
Nominal wages (% change y-y) 3/	2.2	3.8	4.6	..	..	5.8	1.9	5.4	5.4	..	5.4	5.4	..	..	..
Real wages (% change y-y) 3/	0.7	-0.1	0.6	..	.	1.5	-2.1	1.5	1.6	..	2.3	1.8	..	..	..
Consumer price index (% change y-y)	4.1	3.9	4.7	3.5	4.0	4.5	5.0	4.7	4.7	3.1	4.1	4.0	2.7	2.6	3.0
Public Sector															
Government balance (% GDP) 4/	-3.9	-3.6	-2.1	-3.0	-2.8	-0.3	0.1	-0.4	-1.5	..	..	.	..	..	..
Domestic public sector debt (% GDP) 5/	33.5	41.4	..	..	..	41.3	..	..	..	..	..	..	..	..	..
Foreign Trade, BOP and External Debt															
Trade balance (billions US$) 6/	-8.8	-11.0	-15.5	..	..	-3.9	-3.3	-3.5	-4.7	..	-1.4	..	..	..	..
Exports of goods (billions US$) 6/	37.6	50.7	47.2	..	..	12.0	12.3	12.2	10.6	..	3.4	..	..	..	..
(% change y-y)	-22.1	34.9	-6.9	..	..	8.1	1.0	-15.3	-17.8	..	-18.9	..	.	..	..
Key export (% change y-y) 7/	-21.2	38.9	-21.3	..	..	-1.6	-20.1	-32.0	-31.4	..	-27.7	..	..	..	..
Imports of goods (billions US$) 6/	46.5	61.7	62.7	..	..	15.9	15.6	15.8	15.3	..	4.8	..	..	..	..
(% change y-y)	-24.0	32.9	1.6	..	..	13.6	2.4	-1.0	-6.0	..	-9.2	..	..	..	..
Current account balance (billions US$) 8/	9.4	8.9	7.1	4.2	6.9	1.0	2.1	2.0	1.8	..	0.8	..	..	..	..
(% GDP)	5.6	4.5	3.1	1.7	2.5	1.9	3.7	3.7	2.9	..	..	..	..	..	..
Foreign direct investment (billions US$)	1.6	0.7	1.3	1.5	2.5	0.4	0.4	-0.1	0.5	..	0.0	..	..	..	..
External debt (billions US$) 9/	54.9	60.0	61.7	..	..	60.9	61.4	62.4	61.7	..	61.7	..	..	..	..
(% GDP)	32.6	30.1	27.5	..	..	27.4	27.3	27.4	27.5	..	27.5	..	..	..	..
Short-term debt (billions US$) 9/	4.0	6.3	7.0	..	..	6.8	7.2	7.1	7.0	..	7.0	..	..	..	..
Debt service ratio (% exports of g&s)	10.4	8.7	8.9	..	..	8.3	7.9	8.5	8.9	..	8.9	..	.	..	..
Foreign exchange reserves, gross (billions US$) 9/	44.2	62.4	75.3	78.0	81.9	66.0	69.0	75.2	75.3	76.1	75.3	77.4	77.0	76.1	76.5
(months of imports of g&s) 10/	8.7	9.5	11.1	11.1	11.2	9.8	10.2	11.1	11.1	..	11.1	11.4	11.3	..	..
Financial Markets															
Domestic credit (% change y-y) 11/	7.4	8.7	14.7	..	..	7.2	8.1	9.6	14.7	..	14.7	..	..	..	..
Short-term interest rate (% p a) 12/	4.8	4.2	4.6	.	..	4.2	4.6	4.7	4.7	..	4.7	4.5	4.4	..	..
Exchange rate (Peso/US$, ave)	47.7	45.1	43.3	..	..	43.8	43.2	42.8	43.5	43.0	43.6	43.6	42.7	42.9	42.7
Real effective exchange rate (2005=100)	121.2	126.8	127.2	..	..	127.3	126.7	127.0	127.9	..	127.9	127.7	..	..	..
(% change y-y) 13/	-2.6	4.6	0.4	..	..	..	..	..	..	..	..	..	..	..	..
Stock market index (Jan 2, 1985=100) 14/	2,468	3,524	4,189	..	..	3,921	4,255	4,334	4,240	4,819	4,321	4,601	4,824	5,030	5,129
Memo: Nominal GDP (billions US$)	168.5	199.6	225.9	245.4	274.4	51.2	56.2	54.7	54.7	..	..	..	..	..	..

Source: National data sources
f = forecast
1/ The GDP series has a break in 2000
2/ New methodology. Figures are based on the 2000 census
3/ Non-agriculture minimum wage, National Capital Region
4/ IMF Government Financial Statistics (GFS) basis
5/ Total public sector domestic debt
6/ Central bank data. Balance-of-payments basis
7/ Electronics and other electronics
8/ Estimates
9/ Central bank data. % of annual GDP for quarterly figures
10/ Based on end-of-period gross international reserves
11/ Based on Depository Corporations Survey
12/ Interbank call rate
13/ World Bank staff estimates
14/ PSEI Composite, period average for annual figures

SMALL PACIFIC ISLANDS

The small Pacific Island economies—comprising Vanuatu, Samoa, Tonga, Kiribati, and Tuvalu—face unique challenges in their size, remoteness, and vulnerability to external shocks. These challenges have been highlighted during the global economic crisis and its aftermath, with uneven recovery of tourism and remittances across the islands. The resulting increase in reliance on donor financing across most of the islands highlights challenges to achieving fiscal sustainability in the context of a narrow production base, heavy import reliance, and limited prospects for private-sector development.

Vanuatu's economy grew by 4.3 percent during 2011, compared with 2.2 percent in 2010. Weak copra and other commodity prices, falling tourism arrivals following a recent peak in the second half of 2009, and the delay of major infrastructure projects had constrained growth over recent years. These constraints are now loosening, with accelerated growth reflecting strong agricultural performance (as export commodity prices rise), and continued growth in the construction sector, supported by donor-financed investments. Inflation during 2011 reached just 0.8 percent. Credit growth slowed as the Reserve Bank moved to normalize monetary policy following its expansionary stance during recovery from the global economic crisis. Price increases were also restrained by the slight appreciation of the Vatu.

While consistently in deficit, the current account position has been narrowing since 2008, to 5.7 percent of GDP in 2011, due to the combined effects of increased tourism arrivals and a recovery in agricultural exports. The government was initially targeting a small fiscal surplus in 2011, but additional expenditure was approved through a supplementary budget in the second half of the year, aimed at boosting growth and partly offsetting delays in donor expenditure. The overall fiscal position remains sound, with debt of around 14 percent of GDP providing a buffer for responding to further external shocks within the target debt ceiling of 40 percent of GDP.

Growth of 4.5 percent is expected in 2012, driven by continued activity in the construction sector, strong agricultural prices, and a pick-up in tourism receipts, in part from planned major international meetings. Inflation is expected to accelerate to 3 percent, while the current account deficit is expected to gradually widen with higher consumer spending and increased import prices. Following recent accession to the World Trade Organization, and given current low revenues as a proportion of GDP, an ongoing challenge for Vanuatu is to sustainably expand the revenue base while rebalancing away from customs duties in order to finance much-needed improvements in public services and infrastructure.

Samoa's recovery from the combined impacts of the global economic crisis and the 2009 tsunami continued at a slower pace, with growth of 1.4 percent in FY2011/12. The economy weakened considerably in FY2008/09-FY2009/10 reflecting the impact of several factors, including fewer tourism arrivals, declining agricultural production and exports, and a halt in production at the Yazaki automotive component plant. The economy grew by 2.1 percent in FY2010/11, driven by accelerated remittance inflows in response to the tsunami, the reopening of the Yazaki plant, and a substantial fiscal stimulus for economic recovery and reconstruction, largely financed from concessional loans.

The pace of recovery slowed in FY2011/12 due to a softening of remittances from post-tsunami peaks, a winding down of fiscal stimulus, and a slow recovery in tourism. Public expenditure declined to 41.6 percent of GDP, down from 46.8 percent in FY2009/10 and 44.2 percent in FY2010/11, as post-tsunami reconstruction projects reached completion. Inflation reached a high of 11.4 percent in December 2011, before moderating in the first quarter of 2012, as weather conditions impacted the supply of agricultural products. The fiscal deficit narrowed to 5.5 percent of GDP, down from 10 percent in FY2009/10, reflecting both fiscal consolidation and strong revenue performance. Private sector credit has recovered from a period of contraction

during the crisis, but still grew by only 6 5 percent in FY2010/11, reflecting weak economic activity.

The economy is expected to grow by about 2 percent in FY2012/13. The outlook remains sensitive to economic developments in the US, New Zealand, and Australia, which are the main sources of tourism demand and remittance income. Production at the Yazaki plant seems to have been permanently scaled back, relative to levels prior to the global economic crisis. Continued efforts at fiscal consolidation to bring down deficits and keep debt levels within the policy target of 40 percent of GDP will need to be carefully managed to avoid risks to growth and service delivery.

Tonga's recovery from the impacts of the food and fuel crisis and the global economic crisis continues, with growth of 1.6 percent projected in FY2011/12. Growth stalled at zero percent in FY2008/09 as poor economic conditions in New Zealand and the US impacted on remittance income, fewer tourist arrivals stunted demand, and adverse weather conditions constrained agricultural exports. The economy gradually recovered, with fiscal stimulus – financed largely by grants and concessional loans – supporting growth of 1.9 percent in FY2009/10 and 1.4 percent in FY2010/11. Remittances and tourism receipts, however, remained weak and commercial banks tightened lending conditions following a spike in non-performing loans after an earlier lending surge. Credit to the private sector contracted by 15 6 percent in 2009/10 and 9.9 percent in 2010/11.

Recovery has continued in FY2011/12, with donor-financed government spending and an uptick in tourism receipts compensating for continued weak domestic revenue performance, but this rebound remains fragile. Inflation has eased to 3.0 percent, down from 7.9 percent in FY2010/11, as import prices have moderated and the exchange rate appreciated. Donor inflows have allowed the continued build-up of foreign reserves, which now stand at an equivalent of 5.9 months of import cover. Private consumption has remained sluggish due to the decline in remittance inflows, and exports remain unusually low—below 3 percent of GDP—due to supply-side constraints and poor weather conditions. Banks' lending standards have remained tight while the provisioning for non-performing loans have contributed to increased costs of borrowing, limiting the projected growth of private sector credit to just 0.9 percent in FY2011/12.

Tonga is at high risk of debt distress, with current foreign debt equal to 42 percent of GDP, and the government will continue to rely on donor grants to avoid large contractions in public expenditure that would undermine prospects for further recovery. Growth is already projected to slow to 1 2 percent in FY2012/13 due to the withdrawal of fiscal stimulus associated with loan-financed construction projects, and the medium-term outlook remains sensitive to recovery in remittances and changes in global economic conditions. Inflation is expected to accelerate to 6 percent as global food and fuel prices remain elevated. Prioritizing public expenditures so as to maintain essential service delivery and infrastructure, and efforts to improve revenue collection are vital in the context of ongoing revenue declines and upcoming expiry of grace periods on large loans.

During the food and fuel crisis and global economic crisis, **Kiribati**'s economy was adversely impacted by high import prices and falls in seafarer remittances, resulting in an economic contraction in 2008 and 2009. The subsequent recovery has been driven by donor infrastructure expenditure and the moderation of food and fuel prices, with growth reaching 1.8 percent in 2011. After inflation reached a high of 18.8 percent during the global food and fuel crisis, prices decreased by 1.4 percent in 2010 and increased by 2 8 percent in 2011. The current account deficit widened to 23 percent of GDP, including official transfers, reflecting import growth accompanying recovery.

Kiribati faces severe problems of fiscal sustainability. The government relies heavily on draw-downs from a sovereign wealth fund, the Revenue Equalization Reserve Fund (RERF), established with revenues from now-depleted phosphate deposits. Asset values declined during the global economic crisis, while withdrawals increased in the face of lower domestic

revenue. Income tax and customs revenues have continued to fall throughout the economic recovery, with total domestic revenues declining by 22 percent since 2007. Declines have been driven by tax non-compliance by poorly-performing state-owned enterprises, and problems with customs administration. This has placed further pressure on the RERF, with a budgeted 2012 fiscal deficit of more than 25 percent of GDP. At current draw-down rates, the RERF will be depleted to one-third of its current value before 2030.

The economy is expected to grow by 2.5 percent in 2012 on the back of large, donor-funded infrastructure projects. While consumer prices are currently projected to increase by 2.5 percent, additional inflationary pressures may arise from strong construction-sector growth, higher import prices, and a recovery in private sector credit through a scheme allowing Kiribati Provident Fund account-holders to access loans using pension savings as collateral. The government faces major challenges in implementing much-needed reforms to state-owned enterprises and improvements to revenue policy and administration.

Tuvalu's economy grew by 1 percent in 2011, driven largely by a recovery in remittances. The economy contracted by 1.7 percent in 2009 and 0.5 percent in 2010 due to reduced demand for seafarers—Tuvalu's largest source of foreign exchange earnings. Tuvalu experienced deflation for the year up to the second quarter of 2011 due the appreciation of the Australian dollar (which it uses as its domestic currency), with average inflation of 0.5 percent over 2011. Efforts to constrain the fiscal deficit were effective, with improved revenue performance supporting a reduction in the 2011 deficit to 22.7 percent of GDP, down from 38.0 percent of GDP in 2010. Further fiscal challenges are expected in 2012, with revenues expected to decline slightly and additional donor support required to meet budget financing requirements. Priorities for the government include maintaining momentum in efforts to improve the quality of expenditure and implementing planned revenue reforms.

SOLOMON ISLANDS

Population	538,000
Population growth	2 6 percent
GDP (PPP, int'l US$ billions)	1 5
GDP per capita (PPP, int'l US$)	2,579
Surface area	28,900 sq km
Capital	Honiara

Source World Development Indicators

The Solomon Islands continued its recent strong economic growth through 2011 and early 2012, though growth may have peaked. The government has used the recent period of strong output growth to rebuild and maintain foreign exchange and fiscal buffers, while the adverse effects from the rise in global fuel prices in 2011 faded.

Elevated levels of logging and a gradual move to full production capacity at the Gold Ridge mine continued to make the largest contributions to growth. Of the 9 percent estimated expansion in the Solomon Islands' economy in 2011, around 3 percentage points are estimated to have come from logging, another 2 percentage points from the start of production at the Gold Ridge mine, and the remainder from strong government spending and donor support. Log exports totaled almost 2 million m^3 in 2011, compared with just over 1.4 million m^3 in 2010, itself a record year, a trend that does not augur well for the sustainability of forest resources. Gold production totaled around 39,500 oz, compared with a mine capacity of two- to three-times this amount. Output of other agricultural commodities also strengthened. Palm oil production reached 31,592 tons, 10 percent more than 2010. Improved fishing performance in the second half of 2011 raised the full year fish catch to 28,200 tons, almost one-third more than 2010.

With the strength in production from these export sectors, combined with high prices, the Solomon Islands recorded trade surpluses in the second half of 2011. Over the full year, the country recorded a trade deficit of just over US$3 million, compared with US$141-million deficit in 2010. This represents the strongest performance in this area since the 1990s. At the same time, export values reached US$436 million, 75 percent above 2010 totals. The improvement in the economy's trade balance was partly attributable to the finalization of import-intensive investments in the Gold Ridge mine and telecommunications. Import values rose at almost the pace of exports in 2011 due to increases in the value of imported fuel, vehicles, and basic machinery.

This stronger trade position, ongoing transfers from development partners, and fishing licence payments, lifted foreign exchange reserves to SBD 3.24 billion (approx US$439 million) as at March 2012. This is equivalent to 10 months of imports, a level of cover maintained since late 2010. Foreign investors' interest in the Solomon Islands, as indicated by foreign direct investment applications, spiked in late 2011 and was focused on forestry, wholesale and retail trade, and mining. The growth in reserves continues to be the main factor increasing the money supply and adding to the structural surplus liquidity in the banking system. Banks appear to have started lending these funds again, with credit to the private sector at the end of 2011 being 6 percent higher than a year earlier.

On average, Honiara consumer price inflation slowed through the second half of 2011, while the year-on-year rate peaked at 10.8 percent in October 2011. By April 2012, it had slowed to 7.9 percent. Volatile betelnut and energy prices were the main drivers of the increase and subsequent slowing in the CPI, although there is some evidence that movements in fuel prices have passed into other prices. A particularly wet rainy season

impacted fruit and vegetable prices through the first quarter of 2012, as did a large adjustment in electricity tariffs reflecting higher generator fuel costs.

While accumulating reserves, authorities have allowed the Solomon Islands dollar to appreciate a further 4.3 percent against its US counterpart between September 2011 and March 2012. This builds on the 4.1 percent revaluation implemented in June 2011. Beyond this, the SBD has generally moved with the US dollar's fluctuations against other currencies through this period. The real effective exchange rate appreciated by 14 percent overall in the year to January 2012, although it is still 7.4 percent weaker than the high recorded in March 2009. The exchange rate is assessed to be a key determinant of inflation in the Solomon Islands, making exchange rate management an important tool of monetary policy.

The Solomon Islands government's budget position benefited from the strength in export values and donor support. The government presented a fiscal surplus of SBD 171.6 million (approximately US$23 million, or around 5 percent of GDP) against a projected shortfall of SBD 126.6 million in 2011, on spending of SBD 2.1 billion. Recurrent expenditures, particularly payroll, were in line with budget projections, while government-funded development expenditures fell considerably short of budgetary plans, in part attributable to the late adoption of the 2011 budget.

The 2012 SBD 3-billion budget includes a near 50 percent increase in public spending. It maintains government funding in core service delivery for health (at above 10 percent of recurrent spending), education (over 22 percent of recurrent spending), and a large increase in the allocation for police. However most of the increase is associated with the government's contribution to the development budget, an area that has suffered from poor realization rates in the past. Towards improving this performance, in 2012 the government plans to develop a four-year rolling expenditure framework to link planning with annual budgets. The framework aims to allocate budgetary resources to programs, activities, and projects. The allocation in the development budget to parliamentarians' constituency funds has been increased. These funds can be spent largely at the Member of Parliament's discretion in their constituency, and the disbursement rate on these funds is generally high.

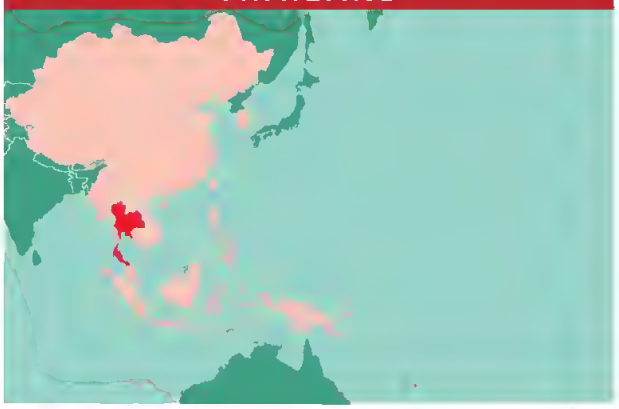
The outlook for 2012 is for a moderation in the rate of GDP growth. While the continued commissioning of the Gold Ridge mine will again contribute to output growth in 2012, recent logging rates are not sustainable and are likely to ease with the weakening in global timber prices. This factor alone is likely to slow GDP growth in 2012 by 2 to 3 percentage points compared with the 2011 rate. After 2013, the EU will require that the sustainability of wood products imported into the region be certified, which has the potential to affect some of Solomon Islands' log exports. While significant quantities are destined for construction and for products that are used within East Asia, some logs are processed into products destined for the EU, meaning that the relative value of certified, sustainably harvested timber is likely to rise. Demand in the non-resource economy has benefited from both donor flows and the rising receipts of cash crop producers. However, both are likely to be near their peaks. This weaker outlook emphasizes the importance of the government's current efforts to rebuild foreign exchange and government account balances during the current upswing.

Solomon Islands Key Indicators

	2008	2009	2010	2011e	2012f	2013f
	Year	Year	Year	Year	Year	Yaar
Output, Employment and Prices						
GDP (% change y-y)	7 1	-4 7	7 0	9 0	6 0	4 0
Consumer price index (% change y-y)	18 3	1 8	0 7	9 0	5 0	4 0
Public Sector						
Government revenues (% GDP)	45 2	49 8	59.3	61 5	58 0	55.0
Government expenditures (% GDP)	45 5	48 2	53 4	55 0	54 0	54 0
Government balance (% GDP)	-0 3	2 2	5.9	6 5	4 0	1 0
Total public sector debt (% GDP)	35 0	33 2	28 1	21 3	18 5	17 5
Foreign Trade, BOP and External Debt						
Trade balance (millions US$)	-132	-109	-215	-104	-82	-78
Exports of goods (millions US$)	193	235	333	524	596	600
(% change y-y)	21 1	21 5	41.8	57 4	13 7	0 6
Key export (% change y-y) 1/	10 1	-20.1	41 5	50 4	-10 0	-10 0
Imports of goods (millions US$)	409	344	548	628	678	678
(% change y-y)	74 1	-15 7	59 2	14 7	7 9	0.0
Current account balance millions US$)	-106	-128	-200	-90	-136	-118
(% GDP)	-16.4	-21 4	-29 6	-11 1	-15 0	-12 0
Foreign direct investment, net (millions US$)	91	117	236	156	105	150
Total external debt (millions US$)	207	194	218	202	206	221
(% GDP)	32 1	32 4	32 2	25 0	22 7	22 6
Debt service ratio (% exports of g&s)	4 2	3 6	3 0	2 0	1.5	1.2
Foreign exchange reserves, gross (millions US$) 2/	90	146	266	365	390	395
(months of imports g&s)	3 1	3.1	3 2	6 5	6 4	7 0
Financial Markets						
Domestic credit (% change y-y) 3/	26 5	-4 2	-12 4	2 0	6 0	8 0
Exchange rate (SD/US$, eop)	7.54	7 90	7.80	7 35	7 35	7 4
Real effective exchange rate (2005=100)	120.6	112.1	109 8	109 8	109 8	109 8
(% change y-y)	6 9	-7 0	-2 0	0 0	0 0	0.0
Memo: Nominal GDP (millions US$)	646	598	676	810	907	979

Source: National data sources and IMF
e = estimate
f = forecast
n.i. = no issues
1/ Logs
2/ Includes foreign assets of non-bank financial institutions
3/ Domestic credit to the private sector

THAILAND



Population	69.1 million
Population growth	0.6 percent
GDP (PPP, int'l US$ billions)	591.3
GDP per capita (PPP, int'l US$)	7,918
Surface area	513,120 sq. km
Capital	Bangkok

Source: World Development Indicators

The Thai economy will rebound this year from a number of major shocks in 2011: the Japan earthquake in March 2011, heavy floods in the last quarter of the year, and the EU economic slowdown through the year. The flood had swept the seven industrial estates in Ayudhaya and Pathumthan, which together account for around a third of industrial production in Thailand, from September to December 2011. As a result, manufacturing firms halted production and companies that are a part of their supply chain also had to suspend work. This resulted in a sharp fall in manufacturing production by 34 percent year-on-year in the last quarter of 2011, especially in the automobile, hard disk drive, integrated circuits, and electrical appliance industries. Agricultural production in the last quarter also contracted as rice crops in the Central region were damaged. Tourism receipts also suffered as arrivals began to decline in October and contracted in November and December. As a result, real GDP growth contracted by 9 percent year-on-year in the fourth quarter of 2011 and full-year GDP grew by only 0.1 percent.

Recovery from the flooding has progressed though been slower than expected. Full recovery of the seven flooded industrial estates was expected by the beginning of the second quarter of 2012. However, as of March 2012, only around 60 percent of the factories in the industrial estates are operational. This slow recovery is reflected in the manufacturing production index, which continued to contract in January and February 2012 by 15.0 percent and 3.4 percent respectively, while capacity utilization is only slowly growing. This slower-than-expected recovery reflected the greater-than-expected time taken for rehabilitation of the factories. As many firms in the industrial estates are manufacturers of relatively high-tech products, time taken to import the new machinery, install them, train employees on the use of the new machineries, and also clean the factories to meet the required standards have been longer than originally expected. There is evidence of some firms moving out of the industrial estates, but the numbers are low (less than 5 percent of the total number of factories as of March). It is now expected that full recovery will most likely take place by the end of the second quarter of this year.

Exports, Thailand's major engine of growth, have also continued to be affected by the impact of the floods into at least the first quarter of the year. With the slower-than-expected recovery of the manufacturing firms in the seven industrial estates, of which a large share of their production is for export, Thai exports continued to contract in January by 6.1 percent year-on-year after contracting by 5.2 percent in the final quarter of 2011. Exports have started to grow again, although slowly, at 1.2 percent year-on-year in February. Exports for the entire year will most likely grow by less than 10 percent, a rate significantly below the normal average of double-digit growth in the non-flood affected years. This is due to a combination of the impacts of the floods and also the slowdown in the economies of Thailand's major markets, such as the Euro zone and China.

The floods also severely affected domestic demand, which began to slowly recover at the beginning of this year. Seasonally-adjusted monthly data of private consumption and investment showed monthly contractions from September through to November 2011. Automobile sales plummeted in October and

November. In addition to the disruption of production, the floods affected transportation networks, resulting in the shortage of some products from firms outside the flood zone. Investments also dried up, as production was disrupted and construction and transportation of equipment and machinery were difficult. There are signs of recovery in both private consumption and investment since January. Private consumption resumed a modest year-on-year growth of 0.2 percent in January 2012, and a strong 6.6 percent in February as the floods subsided and home rehabilitation began. Similarly, private investment also started to expand in January by 0.6 percent year-on-year and by 8.8 percent in February with rehabilitation of the affected factories.

Public investments in flood prevention and water management plans have been prepared, but implementation has just begun. Public investments last year were affected by a change in government, delayed passage of the FY2012 budget (from September 2011 to February 2012), as well as the floods. Public investment in real terms contracted by 8.7 percent year-on-year last year. In response to the floods, the government has allocated around THB 137 billion (US$4.6 billion) for flood prevention and water management projects this year. The Cabinet also approved an additional THB 350 billion (US$11.7 billion) in an Emergency Decree for a three-year flood prevention and water management project. Most of this latter amount, however, will be used for projects that will begin next year. Public investment this year should see an expansion of more than 10 percent in real terms through the increase in public investment funds from last year.

With flood recovery now slowly underway, the key downside risk to the economy this year remains the slow growth of the Euro zone and China. Although less than 10 percent of direct Thai exports travel to Europe, exports of parts to other countries—such as China—would be affected, as the EU is the destination for the final products (Thai exports to China account for around 15 percent of total exports). A direct slowdown in demand in China would also negatively affect Thai exports.

Monetary policy has been accommodative, with the policy rates reduced to promote recovery from the floods. Inflation has remained in check and will most likely average below 4 percent this year. Headline inflation (core inflation) rose from 3.0 percent (1.4 percent) at the end of 2010 to its peak of 4.19 percent (2.9 percent) in November 2011 before starting to ease in December and now stands at 3.45 percent (2.77 percent) in March 2012. To curb inflation and inflation expectations, the Bank of Thailand raised its policy rate (the 1 day repurchase rate) six times in 2011 from 2.25 to 3.50 percent by August 2011. However, the effect of the heavy floods in key economic areas prompted the Bank of Thailand to ease its hawkish stance in cutting the policy rate by 25 basis points in November 2011 and another 25 basis points in January to 3.00 percent. However, the government's raising of the minimum wage and rice prices will add to price pressures.

As of the beginning of April 2011, Thailand's international reserves totaled US$178.5 billion (equivalent to almost nine months of imports), falling from a peak of US$187.5 billion in April 2011. The balance of payments should be slightly lower than that of last year's US$1.2 billion as the current account surplus will be smaller as imports of capital goods sharply rise for flood-related construction and rehabilitation, particularly of the manufacturing sector.

Thailand Key Indicators

	2009	2010	2011	2012f	2013f	2011				2012	2011	2012			
	Year	Year	Year	Year	Year	Q1	Q2	Q3	Q4	Q1	Dec	Jan	Feb	Mar	Apr
Output, Employment and Prices															
Real GDP (% change y-y)	-2.3	7.8	0.1	4.5	5.0	3.2	2.7	3.6	-9.0						
Domestic demand (% change y-y)	-6.9	10.3	2.5	.	..	0.7	3.1	2.8	3.2						
Industrial production index (2000=100)	166.1	190.0	172.4		.	187.7	181.7	195.3	124.9	174.3	140.7	158.6	172.2	192.0	
(% change y-y)	-7.2	14.4	-9.3		.	-2.1	-2.5	1.8	-34.2	-7.1	-25.3	-15.2	-3.2	-3.2	
Unemployment (%)	1.5	1.0	0.7			0.8	0.6	0.7	0.6		0.4				
Real wages (% change y-y) 1/	-1.6	3.3	7.2		.	4.4	1.6	7.3	8.0			.			
Consumer price index (% change y-y)	-0.8	3.3	3.8	3.5	.	3.0	4.1	4.1	4.0	3.4	3.8	3.4	3.4	3.4	2.5
Public Sector															
Government revenues (% GDP)	15.9	17.2	17.7	16.8	15.8	14.0	23.1	18.6	16.5			.			
Government expenditures (% GDP)	21.1	19.5	21.4	22.8	23.3	21.3	21.2	17.5	19.9						
Government balance (% GDP) 2/	-5.1	-2.3	-3.7	-6.0	-7.5	-10.3	5.2	4.3	-10.2			.			
Domestic public sector debt (% GDP) 3/	39.4	38.8	37.7	41.7	42.1	37.9	37.4	38.3	37.4		37.8				
Foreign Trade, BOP and External Debt															
Trade balance (billions US$)	19.4	28.0	23.9		..	8.0	7.3	7.7	1.0		-0.2	0.5			
Exports of goods (billions US$)	150.7	193.7	225.8			56.0	57.3	63.3	49.2		16.9	15.5			
(% change y-y)	-14.0	28.5	16.6			27.3	19.2	27.3	-5.2		-2.1	-6.1			
Key export (% change y-y) 4/	-13.5	20.9	-2.5			1.8	6.7	10.6	-29.0		-30.6	-26.5			
Imports of goods (billions US$)	118.2	161.9	201.9			48.0	50.0	55.6	48.2		17.1	15.0			
(% change y-y)	-25.2	36.7	24.7		.	26.4	28.0	33.4	12.2		19.6	-2.5			
Current account balance (billions US$)	21.9	13.2	11.9			5.9	9	3.1	1.8		1.9	0.8			
(% GDP)	8.3	4.1	3.4		.	6.6	1.1	3.5	2.3						
Foreign direct investment (billions US$) 5/	4.9	9.7	8.4			0.9	2.5	2.4	2.6		0.8				
External debt (billions US$) 6/	75.3	100.6				108.2	112.0	115.6							
(% GDP)	28.6	31.6			..	30.1	32.0	32.4	..						
Short-term debt (billions US$) 6/	33.1	50.7				55.7	58.9	58.7							
Debt service ratio (% exports of g&s)	7.6	4.7			.	3.9	3.0	2.4							
Foreign exchange reserves, gross (billions US$)	138.4	172.1	182.2			181.6	184.9	180.1	175.1	179.2	175.1	178.6	180.4	179.2	179.0
(months of imports of g&s)	10.7	10.0	8.7			9.0	8.8	7.9	8.7			.		.	
Financial Markets															
Domestic credit (% change y-y) 7/	3.1	12.6	16.2			14.9	16.1	17.5	16.2		16.2	16.0		.	
Short-term interest rate (% p.a.) 8/	1.4	1.5	3.0			2.3	2.8	3.4	3.3	3.0	3.3	3.0	3.0	3.0	3.0
Exchange rate (Baht/US$, ave)	34.3	31.7	30.5			30.5	30.3	30.1	31.0	31.0	31.2	31.6	30.7	30.7	30.9
Real effective exchange rate (2000=100) 9/	108.8	113.4	111.5			113.0	111.7	111.4	110.0	..	110.8	110.3	109.5	..	
(% change y-y)	-3.6	4.2	-1.6			2.6	-1.5	-1.9	-5.3	..	7.8	10.0	10.3	..	
Stock market index (Dec. 1996=100) 10/	735	1,033				1,047	1,041	916	1,025	1,196	1,025	1,084	1,161	1,196	1,025
Memo: Nominal GDP (billions US$)	263.4	318.7	356.8			89.9	87.5	89.3	79.1						

Source: National data sources; World Bank staff estimates.
f = forecast
1/ Average wage of employed person, using the National Statistical Office Labor Force Survey, deflated by CPI inflation
2/ Cash balance of central government
3/ Includes domestic central government (CG) debt, domestic debt of non-financial state enterprises and the Financial Institutions Development Fund (FIDF) debt. Series was revised by adding the Village Fund (VF) and the Energy Fund Public Organization (EFPO)
4/ Machinery and mechanical appliances
5/ Non-bank FDI
6/ Bank of Thailand figures
7/ Private credits from domestically registered commercial banks, branches of foreign banks, international banking facilities, finance companies, specialized banks, thrift and credit cooperatives, and money market mutual funds
8/ One-day repurchase rate, average
9/ World Bank staff estimates
10/ Bangkok SET

TIMOR-LESTE

Population	1.1 million
Population growth	2.2 percent
GDP (PPP, int'l US$ billions)	1.0
GDP per capita (PPP, int'l US$)	876
Surface area	14,870 sq. km
Capital	Dili

Source World Development Indicators

Timor Leste's non-oil GDP has grown at nearly 12 percent annually over the past five years. Growth has been driven largely by agriculture, services related to trade and transport, and public spending. The latter is financed by petroleum revenues, buoyed by global oil prices. Inflationary pressures are increasing as global commodity prices remain high, the US dollar (Timor Leste's currency) depreciates against major trading partners, public spending adds to aggregate demand, and while supply bottlenecks emerge. Rising inflation may slow progress on poverty reduction and compromise competitiveness and economic diversification in the longer term. The real effective exchange rate appreciated faster than the nominal in the last quarter of 2011, as inflation picked up pace. The presidential elections in March/April and Parliamentary elections in June may affect 2012 economic performance.

The government's 2011-2030 Strategic Development Plan emphasizes the importance of high-quality public spending and the accumulation of physical and human capital to stimulate the economy and enhance absorptive capacity. The plan envisages public investment in non-oil sectors, such as agriculture and tourism, and a downstream petroleum industry, to be financed by moderate foreign borrowing, and greater withdrawals from the nation's petroleum fund. This sovereign wealth fund, managed by the Santiago Principles, was valued at US$9.3bn in 2011, or nearly nine times non-oil GDP. The total petroleum wealth of the country includes the petroleum fund and an estimated present value of US$13.5 billion in revenues from fields currently under production.

GDP growth is estimated to be 10.6 percent in 2011 compared with 9.5 percent in 2010, thanks to an expected rebound in agricultural production and a 44 percent increase in public spending. In 2012, GDP growth is estimated to be 10 percent reflecting more moderate agricultural growth and a more than 50 percent boost in public spending to US$1.67 billion. The UN mission (UNMIT), is scheduled to begin its withdrawal at the end of 2012. Recent estimates suggest that UNMIT's direct contribution to total 2011 GDP (oil and non-oil) was around 1 percent, which is equivalent to 4.4 percent of non-oil GDP. Four-fifths this contribution comprises local payments to international staff.

While the absolute value of Timor Leste's oil wealth is low relative to other petroleum endowed nations, it is one of the most dependent on petroleum revenues. Petroleum receipts (including investment returns) are estimated to peak in 2011 at US$2.8 billion before falling to US$2.1 billion in 2012. Estimates naturally remain highly sensitive to global oil prices. Thanks to these receipts, the estimated overall fiscal surplus in 2012 is 37 percent of GDP. But the non-oil deficit is estimated at 130 percent of GDP. Forward spending plans have triggered a debate about adherence to a fiscal anchor that proposes a non-oil fiscal deficit in line with the sustainable income from the petroleum fund, which is calculated as 3 percent of the petroleum wealth. In 2011, domestic revenues represented just 10.2 percent of GDP and covered 9.9 percent of public spending. Domestic revenues are expected to grow by 25.8 percent in the 2012 budget, and to outpace GDP growth in the medium-term, especially if planned tax policy and administration reforms take effect. But spending will grow even faster, thereby increasing the

reliance on financing from the petroleum fund. The 2012 budget shows the government withdrawing roughly double the estimated sustainable income (ESI) for the next four years, and the Strategic Development Plan suggests this will continue well beyond that. These excess withdrawals will, on present assumptions, slow the growth in the value of the petroleum fund and ESI, but should also spur non-oil growth and generate partially-compensating domestic revenues.

Timor Leste's external balance reflects the country's heavy reliance on imports. Like the fiscal balance, the current account balance is supported by petroleum income. In 2011, Timor Leste imported US$689 million of goods, while exports were valued at US$22 million; coffee represented 90 percent of this figure. Petroleum receipts are recorded as income rather than exports on the balance of payments. Thanks to this income, the 2011 estimated current account balance is a surplus of US$2.4 billion, or a healthy 225 percent of GDP. Year-end official reserves stood at US$450 million, equal to eight months of 2011 imports. Adding the petroleum fund increases this to roughly 170 months of cover.

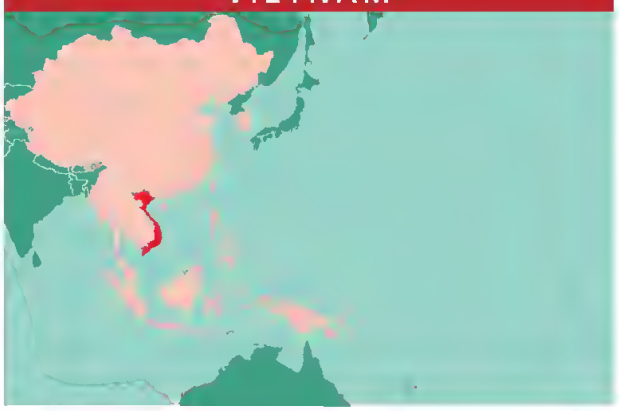
The government is increasingly aware of the perils of high inflation. Despite easing to 12.7 percent in February, inflation (measured as CPI in Dili) has been on the rise, peaking at 17.7 percent in January. Recent analysis by the Ministry of Finance emphasizes the effect of global food prices (food constitutes 60 percent of the CPI basket) and the depreciation of the US dollar relative to Timor Leste's major trading partners. However, the analysis also recognizes the role that rising public spending, and especially recurrent spending, can play in driving inflation. It proposes a more careful review of the pipeline of investment projects and recurrent spending, noting the importance of investments that stimulate aggregate supply and productivity.

The government will borrow for the first time this year. The 2012 budget allows foreign concessional borrowing of up to US$160 million, of which US$43 million is allocated for 2012. This is part of a wider plan to borrow up to US$483 million over 2012-16 to finance capital spending. The 2011 joint World Bank/IMF debt sustainability analysis tests this scenario and puts Timor Leste at a low risk of debt distress on present assumptions. Parliament also recently passed a law on public private partnerships as a further means of generating public financing.

Institutional reforms continue, including the government publication of a "Citizens Budget" in 2012. A "Transparency Portal" was launched late 2011, enabling the public to access data on revenue and public spending. The national accounts for 2004–10 will soon be published for the first time since 2006. It is hoped that ongoing adjustments to the new institutional structure created to manage the government's multiannual infrastructure fund (just under half the 2012 budget) will lead to stronger design, implementation, and ultimately higher rates of economic return on public investment. The much-awaited Land Law was passed by Parliament in February, but vetoed by the President in March. If passed, this should provide greater certainty around land ownership, improving the incentives for investment. It should also allow for the opportunity to use land as collateral to access finance, an issue that remains a constraint to growth in Timor Leste.

The formal banking sector comprises branches of an Australian, Indonesian, and Portuguese banks, and a locally-incorporated microfinance institution. Credit to the private sector is estimated to have expanded rapidly, growing by 18.5 percent in 2011, after stagnating in 2010. But this still constitutes a relatively low 12.5 percent share of GDP. January deposit rates were 0.6 percent and lending rates 12.1 percent, with the spread reflecting high administrative costs and risk. Non-performing loans declined steadily from 42 percent of total loans in 2010 to 36 percent at the end 2011. Loan loss provisioning was US$63.5 million, or 133 percent of the value of non-performing loans, effectively mitigating this risk to the banking system.

VIETNAM



Population	86.9 million
Population growth	1.0 percent
GDP (PPP, int'l US$ billions)	278.6
GDP per capita (PPP, int'l US$)	3,009
Surface area	329,310 sq km
Capital	Hanoi

Source World Development Indicators

After a prolonged period of heightened turbulence, Vietnam's economy is gradually entering a more stable macroeconomic environment. Between 2007 and 2010, partial adjustments to a series of shocks, including a surge in capital flows, resulted in rising macroeconomic vulnerabilities evidenced by higher inflation, falling reserves, an increase in public and external deficits, and structural weaknesses in the banking and enterprise sectors. These vulnerabilities and the absence of a persuasive strategy to address them led to deterioration in sentiment towards Vietnam. The situation, however, started to reverse after the government introduced measures in February 2011 to stabilize the economy and to ensure social stability (the so-called Resolution 11).

While Vietnam's economy has started to stabilize, the significant tightening of macroeconomic policies, along with uncertain global economic environment, are beginning to take a toll on its economic growth. Real GDP growth decelerated from 6.8 percent in 2010 to 5.9 percent in 2011 and further to 4.0 percent in the first quarter of 2012 as domestic demand slowed, affecting construction, services, and utilities. Tighter domestic policies in 2011 have dampened investment (particularly in infrastructure and real estate) and private consumption. Thanks to a combination of these measures and falling food prices, inflation declined to 10.5 percent year-on-year in April 2012 from a peak of 23 percent in August 2011.

The current account deficit is estimated to have declined to 0.5 percent of GDP in 2011, from 4.1 percent in 2010, mainly due to a broad-based rebound in exports. Export earnings soared by 34.2 percent in 2011 and continue to grow. Exports in the first quarter of 2012 were 23.6 percent higher compared to the same period last year. Key labor intensive manufacturing exports such as garments, footwear, and furniture continued to grow at 14-18 percent in the first three months of this year.

Pressures on the exchange rate have continued to decline in the first quarter of 2012, as confidence in the dong has gradually picked up. The unofficial exchange rate has remained close to the lower edge of the plus/minus 1 percent band around the official rate since the 8.5 percent devaluation of the Vietnamese Dong against US dollar in February 2011. The increased supply of US dollars in the market has enabled the State Bank of Vietnam (SBV) to replenish foreign exchange reserves in the first months of 2012, which are reportedly at nearly 7.5 weeks of imports.

Government measures have led to a sharp decline in credit growth, from 32.4 percent at the end of 2010 to 14.3 percent by the end of last year. However, asset quality has deteriorated in part due to rapid credit growth before 2011 and the slowdown in the real sector. Official non-performing loans have increased from 2.2 percent of assets at the end of 2010 to 3.6 percent in March 2012, but are likely to be higher if measured by international accepted standards. Monetary tightening has also added liquidity stress in some smaller banks. In response to this, the authorities have provided liquidity and other support to ailing banks.

Maintaining macroeconomic stability remains the government's priority. Economic growth is expected to be around 5.7 percent, and year-end inflation is

forecast to decline to below 10 percent in 2012. In a move to shore up the economy, SBV reduced policy interest rates by 200 basis points in March and April (from 15 to 13 percent) and announced further reductions of at least 100 basis points every quarter during 2012. Cooling demand and slow credit growth should dampen the inflationary impact of the rate cuts, which at the same time should help ease financing cost of the private sector.

The government is making efforts at fiscal consolidation, following expansionary policies in 2009 and 2010 in response to global financial crisis. The fiscal deficit is estimated to have declined to 2.7 percent of GDP in 2011 against a budgeted deficit of 6.5 percent, and in contrast to almost 6.0 percent in 2010. For 2012, the budget deficit is expected to widen to 6.0 percent of GDP, but the government may be able to keep it below this since past revenue performance is consistently understated. Maintaining fiscal discipline is a priority to help relieve the burden on monetary policy as the economy begins to stabilize, and to help maintain debt sustainability over the medium-term.

Vietnam's public debt is likely to remain sustainable if the economic recovery continues and the authorities remain on the current path of fiscal consolidation. The World Bank's Low-Income Country Debt Sustainability Analysis shows that Vietnam remains at a low risk of debt distress.

The largest source of uncertainty to debt sustainability comes from implicit obligations to state-owned enterprises, which are not captured under government and government-guaranteed debt statistics. A reliable estimate of such liabilities is not available, which limits the government's ability to manage associated risks. The authorities are stepping up efforts to collect reliable and up-to-date information on contingent liabilities (mostly in the state-owned enterprise or SOE sector) and to monitor and manage potential fiscal risks. Greater transparency and disclosure of information is critical to build confidence among market participants.

The unresolved problems in the banking sector are likely to remain a source of concern for Vietnam in the coming years. The SBV has stepped up its supervision efforts and raised minimum capital requirements in response to concerns about the health of the banking sector. At the end of 2011, three weak banks with liquidity problems and high non-performing loans were merged and the combined bank is now being closely supervised by SBV. On March 1, the Prime Minister issued Decision 254 on "Restructuring credit institution system in the 2011–15 period." The Decision provides a framework to deal with weak banks and sets out a number of targets to be achieved by 2015. It sets out a number of restructuring options including letting the SBV directly acquire the equity of weak banks, increasing the ownership limit for foreign banks in domestic credit institutions, encouraging healthy banks to buy good quality assets and loans from weak banks, and allowing banks to sell their bad debts to the Debt and Asset Trading Company. However, the actual implementation of the plan, the restructuring options to consider, and the related implications are still under discussion. Preparations for a Financial Sector Assessment Program are also underway.

Vietnam's near-term policy challenge is to maintain macroeconomic stability and restore confidence among investors, while also addressing longer-term structural reforms. The government is stepping up efforts to restructure SOEs, public investment management, and the financial sector. A number of key regulations, including the ones involving medium-term investment planning, management and supervision of state capital investment in SOEs, and performance monitoring of SOEs are likely to be enacted during 2012. Even if only a subset of the announced structural reforms is implemented steadfastly, Vietnam should return to a more sustainable macroeconomic environment while laying the foundations for greater efficiency and productivity to drive medium- and longer-term growth.

Vietnam Key Indicators

	2008 Year	2009 Year	2010 Year	2011e Year	2012f Year	2013f Year
Output, Employment and Prices						
Real GDP (% change y-y)	6.2	5.3	6.8	5.9	5.7	6.3
Industrial production index 1/						
(% change y-y)	7.4	7.1	9.3	6.8	7.0	7.5
Unemployment (%) 2/	4.7	4.6	4.4	4.0	4.0	4.0
Consumer price index (% change y-y)	19.9	6.5	11.8	18.1	9.5	6.0
Public Sector						
Government revenues (% GDP)	28.9	27.3	27.8	27.6	27.8	27.6
Government expenditures (% GDP)	29.4	34.5	33.1	30.3	31.4	30.4
Government balance, official (% GDP) 3/	1.2	-3.9	-2 0	-0.6	-1.6	-1 0
Government balance, general (% GDP) 4/	-0.5	-7.2	-5.2	-2.7	-3.6	-2 8
Public sector debt (% GDP) 5/	42.9	51.2	54.2	48.8	49.0	47.7
Foreign Trade, BOP and External Debt						
Trade balance (billions US$)	-12.8	-8.3	-5.1	-0.5	-2.2	-2.5
Exports of goods (billions US$)	62.7	57.1	72.2	96.9	110.5	126 0
(% change y-y)	29.1	-8.9	26.4	34.2	14.0	14.0
Key export (% change y-y) 6/	23.1	-40.2	-23.0	45.9	5.0	5.0
Imports of goods (billions US$)	80.7	69.9	84.8	106.7	123.9	141.3
(% change y-y)	28.6	-13.3	21.2	25.9	16.0	14.1
Current account balance (billions US$)	-10.8	-6.1	-4.3	-0.6	-2.1	-2 0
(% GDP)	-11.9	-6.6	-4.1	-0.5	-1.6	-1.4
Foreign direct investment (billions US$)	9.3	6.9	7.1	7.3	7.3	7.3
External debt (billions US$)	29.2	38.7	45.4	50.3	55.6	59.8
(% GDP)	32.4	41.6	43.8	41.0	41.1	40.5
Debt service ratio (% exports of g&s)	2 9	4 9	3.3	3.4	3 8	3 9
Foreign exchange reserves, gross (billions US$)	23.0	14.1	12.4	.	..	..
(months of imports of g&s)	3.4	2.4	1.8	.	..	..
Financial Markets						
Domestic credit (% change y-y)	25.4	39.6	32.4	14.3	16.0	16.0
Short-term interest rate (% p a) 7/	8.1	10.7	14.0	14.0	13.0	..
Exchange rate (Dong/US$, eop) 8/	17,483	18,479	19,498	20,828	20,828	..
Real effective exchange rate (2000=100)	125.7	115.7	116.9	121.9	..	..
(% change y-y)	18.7	-8 0	1.0	4.3	..	..
Stock market index (Jul 2000=100) 9/	316	495	485	352	..	..
Memo. Nominal GDP (billions US$)	90	93	104	123	135	148

Sources: Vietnam Government Statistics Office, State Bank of Vietnam, IMF, and World Bank staff estimates.
e = estimate
f = forecast
1/ The industrial production index (IPI) is a new series replacing previous "industrial production value in constant 1994 price"
2/ Urban areas
3/ Excludes off-budgetary items
4/ Includes off-budgetary items
5/ Public and publicly-guaranteed debt
6/ Crude oil
7/ Three-month deposit, end-of-period. Data for 2012 is as of March 30
8/ Inter-bank exchange rate. Data for 2012 is as of March 30
9/ Ho Chi Minh Stock Index

APPENDIX TABLES

Appendix Table 1. Real GDP Growth

percent change from a year earlier

	China	Indonesia	Malaysia	Philippines	Thailand	Vietnam	Hong Kong SAR, China	Korea, Rep.	Singapore	Taiwan, China	East Asia
Q1-2002	8.9	3.5	2.7	3.2	4.5	..	-1.0	6.6	-0.8	1.6	..
Q2-2002	8.0	4.2	4.7	4.0	5.0	..	0.5	7.0	4.5	6.5	..
Q3-2002	8.1	5.6	7.1	2.7	5.8	..	2.8	6.8	6.8	6.8	..
Q4-2002	8.1	4.7	6.9	4.6	6.0	..	4.8	8.1	6.4	6.0	..
Q1-2003	10.8	4.9	6.3	4.8	6.9	..	4.1	3.5	4.2	4.7	..
Q2-2003	7.9	5.0	5.9	4.8	6.6	..	-0.9	1.8	-0.6	-1.3	..
Q3-2003	9.6	4.6	4.6	5.3	6.7	..	3.8	2.0	5.4	4.6	..
Q4-2003	9.9	4.6	6.5	5.0	8.3	..	4.7	3.9	9.1	6.4	..
Q1-2004	10.4	4.1	8.2	7.3	6.7	..	7.7	5.2	9.9	6.1	..
Q2-2004	9.6	4.4	7.9	7.7	6.6	..	12.0	5.9	12.8	9.7	..
Q3-2004	9.1	4.5	6.4	5.8	6.3	..	6.6	4.8	7.7	6.7	..
Q4-2004	9.5	7.2	4.9	6.1	5.9	..	7.9	2.7	6.6	2.9	..
Q1-2005	10.5	6.0	5.6	4.4	3.6	7.4	6.2	2.7	4.7	2.7	7.0
Q2-2005	10.1	5.9	4.3	5.1	4.7	7.8	7.1	3.4	6.4	4.0	7.2
Q3-2005	9.8	5.8	5.6	4.4	5.5	8.3	8.1	4.5	8.6	4.8	7.5
Q4-2005	9.9	5.1	5.9	5.1	4.7	8.4	6.9	5.1	9.5	7.0	7.8
Q1-2006	12.4	5.1	6.0	5.4	6.1	7.3	9.0	6.1	10.6	5.8	9.3
Q2-2006	11.5	4.9	6.1	5.3	5.1	7.4	6.1	5.1	8.7	5.8	8.5
Q3-2006	10.6	5.9	5.8	4.9	4.8	7.9	6.4	5.0	8.1	6.5	8.1
Q4-2006	10.4	6.1	5.4	5.4	4.4	8.2	6.7	4.6	7.9	3.8	7.7
Q1-2007	14.0	6.1	5.7	6.3	4.6	7.7	5.6	4.5	8.1	4.5	9.6
Q2-2007	13.8	6.7	5.9	7.6	4.6	7.8	6.1	5.3	9.7	5.7	9.9
Q3-2007	13.4	6.7	6.8	6.3	5.5	8.2	6.8	4.9	11.0	7.1	9.9
Q4-2007	12.1	5.8	7.5	6.3	5.4	8.5	6.9	5.7	6.7	6.5	9.1
Q1-2008	11.3	6.2	7.5	4.0	6.3	7.5	7.2	5.5	8.1	7.5	9.0
Q2-2008	10.1	6.3	6.7	4.3	5.2	6.5	4.2	4.4	3.2	5.7	7.6
Q3-2008	9.0	6.3	5.1	5.3	3.1	6.3	1.2	3.3	-0.3	-1.2	5.9
Q4-2008	6.8	5.3	0.2	3.1	-4.1	6.2	-2.6	-3.3	-3.7	-7.5	2.4
Q1-2009	6.5	4.5	-6.2	1.0	-7.0	3.1	-7.9	-4.2	-8.8	-8.1	1.4
Q2-2009	8.1	4.1	-3.9	1.6	-5.2	3.9	-3.4	-2.1	-2.0	-6.6	3.3
Q3-2009	9.6	4.3	-1.2	0.5	-2.8	4.6	-2.0	1.0	1.9	-1.4	5.3
Q4-2009	10.7	5.6	4.6	1.4	5.9	5.5	2.5	6.3	5.3	8.8	8.4
Q1-2010	11.9	5.9	10.1	8.4	12.0	5.9	8.0	8.7	16.5	12.9	11.0
Q2-2010	10.3	6.3	9.0	8.9	9.2	6.2	6.8	7.6	19.8	13.0	9.9
Q3-2010	9.6	5.8	5.3	7.3	6.6	6.6	6.9	4.5	10.6	11.2	8.4
Q4-2010	9.8	6.8	4.8	6.1	3.8	6.8	6.6	4.9	12.5	6.5	8.1
Q1-2011	9.7	6.4	5.2	4.6	3.2	5.4	7.6	4.2	9.1	6.6	7.9
Q2-2011	9.5	6.5	4.3	3.1	2.7	5.6	5.3	3.5	1.2	4.5	7.1
Q3-2011	9.1	6.5	5.8	3.6	3.7	5.8	4.3	3.6	6.0	3.4	7.0
Q4-2011	8.9	6.5	5.2	3.7	-9.0	5.9	3.0	3.3	3.6	1.9	6.1
Q1-2012	8.1	6.3	..	..	..	4.0	0.4	2.8	1.6	0.4	..

Source: Haver Analytics and national sources. Data for China uses annual production side GDP.

Appendix Table 2. Real GDP and Components of Aggregate Demand

percent change from a year earlier

	Indonesia	Malaysia	Philippines	Thailand	Hong Kong SAR, China	Korea, Rep.	Singapore	Taiwan, China	S.E. Asia	NIEs
GDP										
2005	5.7	5.3	4.8	4.6	7.1	4.0	7.4	4.7	5.2	4.9
2006	5.5	5.8	5.2	5.1	7.0	5.2	8.8	5.4	5.4	5.9
2007	6.3	6.5	6.6	5.0	6.4	5.1	8.9	6.0	6.1	5.9
2008	6.0	4.8	4.2	2.5	2.3	2.3	1.7	0.7	4.5	1.8
2009	4.6	-1.6	1.1	-2.3	-2.6	0.3	-1.0	-1.8	1.0	-0.8
2010	6.2	7.2	7.6	7.8	7.0	6.3	14.8	10.7	7.1	8.5
2011	6.5	5.1	3.7	0.1	5.0	3.6	4.9	4.0	4.1	4.1
Private Consumption										
2005	4.0	9.1	4.4	4.6	3.0	4.6	3.6	2.9	5.2	3.8
2006	3.2	6.8	4.2	3.2	5.9	4.7	5.0	1.5	4.1	4.0
2007	5.0	10.5	4.6	1.8	8.5	5.1	6.8	2.1	5.2	4.9
2008	5.3	8.7	3.7	2.9	2.4	1.3	3.3	-0.9	5.1	1.0
2009	4.9	0.7	2.3	-1.1	0.7	0.0	0.1	0.8	2.1	0.3
2010	4.7	6.5	3.4	4.8	6.7	4.4	6.5	3.7	4.9	4.7
2011	4.7	6.9	6.1	1.3	8.6	2.3	4.1	3.0	4.6	3.6
Fixed Investment										
2005	10.9	5.0	2.4	10.5	4.1	1.9	-1.7	2.7	8.1	2.1
2006	2.6	7.5	5.4	3.9	7.1	3.4	16.0	0.1	4.4	4.2
2007	9.3	9.4	5.2	1.5	3.4	4.2	17.4	0.6	6.5	4.3
2008	11.9	1.1	3.2	1.2	1.0	-1.9	13.0	-12.4	5.4	-3.0
2009	3.3	-5.6	-1.7	-9.2	-3.9	-1.0	-2.9	-11.2	-2.5	-4.4
2010	8.5	9.8	19.1	9.4	7.7	5.8	7.0	24.0	10.8	11.3
2011	8.8	6.0	2.7	3.3	7.2	-1.1	3.3	-3.8	5.8	-0.2
Exports of Goods & Services										
2005	16.6	8.3	5.0	4.2	10.6	7.8	20.8	7.8	9.6	9.3
2006	9.4	6.6	12.6	9.1	9.4	11.4	8.2	11.4	9.3	10.8
2007	8.5	4.1	6.7	7.8	8.3	12.6	15.4	9.6	7.1	11.3
2008	9.5	1.7	-2.7	5.1	2.5	6.6	-26.7	0.9	4.7	1.3
2009	-9.7	-10.5	-7.8	-12.5	-10.3	-1.2	24.2	-8.7	-10.2	-2.3
2010	15.3	9.9	21.0	14.7	16.7	14.7	39.7	25.6	15.0	20.5
2011	13.6	3.7	-3.8	11.1	4.1	9.5	3.4	4.5	8.0	6.7

Source Haver Analytics, national data sources, and World Bank staff estimates. Regional averages are 2000 US$ GDP weighted.

Appendix Table 3. East Asia - Merchandise Export Growth

in US dollars, percent change from a year earlier

	2009	2010	2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12
East Asia (10)	-16.3	28.7	14.8	19.6	18.6	9.9	4.6	8.8	-3.6	17.5	2.8	
China	-15.9	31.3	20.4	22.1	20.7	14.3	7.6	13.4	-0.6	18.4	8.9	4.9
S.E. Asia	-16.8	29.5	18.9	22.5	21.9	11.6	6.8	2.5	-0.2	13.7	2.0	
Indonesia	-15.0	35.5	28.7	43.8	39.6	8.7	6.9	1.5	6.6	8.9	5.5	
Malaysia	-21.2	26.3	14.3	16.8	16.4	8.6	4.0	5.0	-1.2	15.4	-0.5	
Philippines	-21.7	34.0	-6.7	1.0	-14.9	-17.5	5.2	-18.9	3.1	14.6	-1.2	
Thailand	-14.3	28.1	17.2	18.5	29.0	-4.8	-3.9	-2.1	-6.0	0.9	-6.5	
Vietnam	-10.1	26.9	32.9	28.8	39.7	29.3	28.3	21.2	0.1	71.2	27.3	15.6
NIEs	-16.2	28.3	14.7	15.2	13.3	7.1	1.4	6.4	-8.5	18.7	-3.1	
Hong Kong SAR, China	-12.2	22.5	9.9	7.9	4.0	6.7	-1.1	7.4	-8.4	14.5	-6.4	
Korea, Rep	-13.9	28.3	19.0	18.6	21.4	9.0	3.0	8.2	-7.3	20.5	-1.4	-4.6
Singapore	-20.2	30.5	16.4	19.8	15.7	7.1	6.0	8.4	-3.9	27.1	-1.5	
Taiwan, China	-20.5	35.0	11.6	13.7	11.0	3.7	-4.5	-1.0	-16.9	9.4	-3.9	-7.0

Source: Haver Analytics

Appendix Table 4. East Asia and the Pacific: GDP Growth Projections

percent change form a year earlier

	2003	2004	2005	2006	2007	2008	2009	2010	2011	Forecast 2012	Forecast 2013
East Asia	6.7	7.9	8.0	9.1	10.1	6.3	4.9	9.3	7.0	6.3	7.0
Developing East Asia	8.8	9.0	9.8	10.9	12.3	8.5	7.5	9.7	8.2	7.6	8.0
China	10.0	10.1	11.3	12.7	14.2	9.6	9.2	10.4	9.2	8.2	8.6
Indonesia	4.8	5.0	5.7	5.5	6.3	6.0	4.6	6.2	6.5	6.1	6.4
Malaysia	5.8	6.8	5.3	5.8	6.5	4.8	-1.6	7.2	5.1	4.6	5.1
Philippines	5.0	6.7	4.8	5.2	6.6	4.2	1.1	7.6	3.7	4.2	5.0
Thailand	7.1	6.3	4.6	5.1	5.0	2.5	-2.3	7.8	0.1	4.5	5.0
Vietnam	7.3	7.8	8.4	8.2	8.5	6.3	5.3	6.8	5.9	5.7	6.3
Cambodia	8.5	10.3	13.3	10.8	10.2	6.7	0.1	6.0	6.9	6.6	6.7
Fiji	1.0	5.3	0.7	1.8	-0.9	1.0	-1.3	-0.2	2.0	1.5	1.7
Lao PDR	6.1	6.4	7.1	8.5	7.5	7.6	7.5	8.5	8.0	8.3	7.5
Mongolia	7.0	10.6	7.3	8.6	10.2	8.9	-1.3	6.4	17.3	17.2	11.8
Papua New Guinea	2.2	2.7	3.6	2.6	7.2	6.7	5.5	7.5	9.0	7.0	5.0
Solomon Islands	6.5	4.9	5.4	6.9	10.7	7.1	-4.7	7.0	9.0	6.0	4.0
Timor-Leste	0.1	4.2	6.2	-5.8	11.7	14.6	12.8	9.5	10.6	10.0	10.0
East Asia NIEs	3.2	6.0	4.9	5.8	5.9	1.8	-0.8	8.4	4.1	3.2	4.2

Source: World Bank data and staff estimates

Appendix Table 5. Regional Aggregates for Poverty Measures in East Asia

	Mean Consumption (2005 PPP$/month)	$1.25–a-day Headcount Index (%)	$1.25–a-day Number of Poor (million)	$2-a-day Headcount Index (%)	$2-a-day Number of Poor (million)	Population (million)
EAP						
1990	47.79	54.96	881.76	80.97	1 299.12	1.604.41
1993	54.69	50.72	848.46	75.76	1 267.24	1 672.77
1996	67.19	35.90	623.43	63.97	1 110.79	1.736.37
1999	70.74	35.58	639.04	61.74	1 108.86	1 795.97
2002	85.64	27.61	509.97	51.93	959.23	1 847.03
2005	107.07	17.11	323.78	39.57	748.88	1 892.72
2008	127.40	14.34	277.49	32.94	637.17	1.934.41
EAP excluding China						
1990	67.32	40.38	189.48	70.73	331.89	469.23
1993	74.04	42.57	210.42	67.94	335.87	494.33
1996	86.16	34.65	179.75	61.03	316.65	518.82
1999	82.71	35.46	192.61	62.54	339.74	543.23
2002	89.65	25.67	145.44	53.96	305.78	566.63
2005	104.96	19.28	113.53	46.21	272.20	589.00
2008	114.30	17.53	106.89	40.74	248.44	609.76
South East Asia (Indonesia, Malaysia, Philippines, Thailand)						
1990	75.07	32.72	105.12	66.26	212.85	321.26
1993	81.96	37.97	128.37	63.92	216.09	338.07
1996	95.84	30.05	106.57	56.32	199.69	354.59
1999	90.47	32.29	119.99	59.08	219.51	371.56
2002	97.70	21.50	83.60	49.81	193.68	388.82
2005	113.56	16.90	68.54	43.60	176.85	405.65
2008	122.78	16.85	70.94	39.05	164.34	420.89
Lower-Income East Asia (Cambodia, Laos, PNG, Vietnam)						
1990	37.82	69.13	58.00	87.83	73.69	83.90
1993	44.29	59.84	53.39	83.14	74.18	89.22
1996	50.14	51.74	48.82	78.67	74.24	94.36
1999	53.90	47.16	46.83	75.46	74.92	99.28
2002	59.73	41.07	42.53	69.41	71.87	103.54
2005	72.93	28.04	30.17	55.90	60.15	107.60
2008	82.59	20.01	22.31	47.01	52.43	111.52

Source World Bank PovcalNet 2012, World Development Indicators, and staff calculations

Appendix Table 6. East Asia: Exchange Rates

local currency per US dollar, end-of-period

	China	Indonesia	Malaysia	Philippines	Thailand	Vietnam	Hong Kong SAR, China	Korea, Rep.	Singapore	Taiwan, China	Japan
Jan-2008	7.19	9,291	3.24	40.65	32.98	15,971	7.80	943.9	1.42	32.20	106.36
Feb-2008	7.11	9,051	3.19	40.36	31.85	15,931	7.78	937.3	1.39	30.95	104.73
Mar-2008	7.02	9,217	3.19	41.87	31.46	16,105	7.79	991.7	1.38	30.41	100.10
Apr-2008	7.00	9,234	3.16	42.19	31.70	16,116	7.80	999.7	1.36	30.45	104.08
May-2008	6.95	9,318	3.24	43.88	32.40	16,246	7.80	1,031.4	1.37	30.41	105.66
Jun-2008	6.86	9,225	3.27	44.76	33.48	16,842	7.80	1,043.4	1.36	30.35	106.40
Jul-2008	6.84	9,118	3.26	44.14	33.48	16,755	7.80	1,008.5	1.37	30.59	107.99
Aug-2008	6.83	9,157	3.39	45.69	34.12	16,525	7.80	1,081.8	1.42	31.52	109.10
Sep-2008	6.82	9,378	3.46	46.92	34.00	16,575	7.77	1,187.7	1.43	32.13	104.30
Oct-2008	6.83	10,995	3.56	48.75	34.93	16,813	7.75	1,291.4	1.48	33.00	98.30
Nov-2008	6.83	12,151	3.62	48.88	35.38	16,974	7.75	1,482.7	1.51	33.30	95.25
Dec-2008	6.83	10,950	3.46	47.49	34.90	17,433	7.75	1,257.5	1.44	32.86	90.75
Jan-2009	6.84	11,355	3.61	47.08	34.88	17,475	7.75	1,368.5	1.51	33.80	89.60
Feb-2009	6.84	11,980	3.69	48.24	36.00	17,475	7.75	1,516.4	1.54	34.95	97.55
Mar-2009	6.84	11,575	3.65	48.42	35.48	17,756	7.75	1,377.1	1.52	33.92	98.10
Apr-2009	6.83	10,713	3.56	48.70	35.27	17,784	7.75	1,348.0	1.48	33.23	97.60
May-2009	6.83	10,340	3.51	47.55	34.33	17,784	7.75	1,272.9	1.45	32.65	96.50
Jun-2009	6.83	10,225	3.52	48.31	33.98	17,801	7.75	1,284.7	1.45	32.82	95.95
Jul-2009	6.83	9,920	3.52	48.12	33.99	17,815	7.75	1,240.5	1.44	32.82	95.33
Aug-2009	6.83	10,060	3.53	48.91	33.97	17,823	7.75	1,244.9	1.44	32.92	92.70
Sep-2009	6.83	9,681	3.47	47.59	33.51	17,841	7.75	1,188.7	1.41	32.20	89.77
Oct-2009	6.83	9,545	3.41	47.73	33.39	17,862	7.75	1,200.6	1.40	32.54	91.38
Nov-2009	6.83	9,480	3.39	46.75	33.16	18,485	7.75	1,167.4	1.38	32.19	86.75
Dec-2009	6.83	9,400	3.42	46.36	33.32	18,472	7.76	1,167.6	1.40	32.03	92.06
Jan-2010	6.83	9,365	3.41	46.74	33.10	18,472	7.76	1,156.5	1.40	31.99	89.85
Feb-2010	6.83	9,335	3.41	46.26	33.03	18,925	7.76	1,158.4	1.41	32.09	89.25
Mar-2010	6.83	9,115	3.27	45.22	32.32	19,080	7.77	1,130.8	1.40	31.82	93.25
Apr-2010	6.83	9,012	3.19	44.64	32.25	18,960	7.77	1,115.5	1.37	31.42	94.06
May-2010	6.83	9,180	3.25	46.21	32.49	18,980	7.79	1,200.2	1.40	32.23	91.30
Jun-2010	6.79	9,083	3.26	46.31	32.40	19,065	7.79	1,210.3	1.40	32.28	88.60
Jul-2010	6.78	8,952	3.19	45.81	32.22	19,095	7.77	1,187.2	1.36	32.05	86.50
Aug-2010	6.81	9,041	3.14	45.18	31.25	19,485	7.78	1,189.1	1.36	32.10	84.25
Sep-2010	6.70	8,924	3.09	43.90	30.37	19,485	7.76	1,142.0	1.32	31.33	83.40
Oct-2010	6.69	8,928	3.11	43.18	29.97	19,495	7.75	1,126.6	1.30	30.78	80.58
Nov-2010	6.68	9,013	3.16	44.26	30.22	19,498	7.77	1,157.3	1.32	30.85	84.15
Dec-2010	6.62	8,991	3.08	43.89	30.15	19,498	7.78	1,138.9	1.29	30.37	81.45
Jan-2011	6.59	9,057	3.06	44.09	31.14	19,498	7.80	1,114.3	1.29	29.30	82.05
Feb-2011	6.58	8,823	3.05	43.84	30.62	20,875	7.79	1,127.9	1.27	29.75	81.70
Mar-2011	6.56	8,709	3.03	43.43	30.30	20,908	7.78	1,107.2	1.26	29.42	83.13
Apr-2011	6.50	8,574	2.97	43.02	29.94	20,625	7.77	1,072.3	1.23	28.76	82.06
May-2011	6.48	8,537	3.01	43.29	30.31	20,535	7.78	1,080.6	1.23	28.77	80.85
Jun-2011	6.47	8,597	3.02	43.49	30.75	20,565	7.78	1,078.1	1.23	28.80	80.72
Jul-2011	6.44	8,508	2.96	42.23	29.75	20,555	7.79	1,052.6	1.20	28.89	77.55
Aug-2011	6.39	8,578	2.98	42.51	30.03	20,822	7.80	1,071.7	1.20	29.02	76.59
Sep-2011	6.35	8,823	3.19	43.64	31.17	20,822	7.79	1,179.5	1.30	30.51	76.63
Oct-2011	6.32	8,835	3.07	43.03	30.67	20,999	7.77	1,104.5	1.25	29.93	79.20
Nov-2011	6.35	9,170	3.17	43.81	31.22	20,999	7.79	1,150.3	1.30	30.35	78.05
Dec-2011	6.30	9,068	3.18	43.93	31.69	21,024	7.77	1,153.3	1.30	32.29	77.72
Jan-2012	6.31	9,000	3.05	42.95	31.04	20,981	7.76	1,125.0	1.25	29.62	76.36
Feb-2012	6.29	9,085	3.00	42.86	30.25	20,830	7.76	1,126.5	1.25	29.42	80.65
Mar-2012	6.29	9,180	3.07	43.00	30.84	20,810	7.76	1,137.8	1.26	29.53	82.82
Apr-2012	6.28	9,190	3.03	42.44	30.73	20,860	7.76	1,134.2	1.24	29.23	79.80
May-2012*	6.31	9,180	3.07	42.37	31.13	20,845	7.76	1,142.9	1.25	29.40	79.93

Sources Haver Analytics, Datastream
Note * May 10, 2012

Appendix Table 7. East Asia: Foreign Reserves Minus Gold

In billions of US dollars

	China	Indonesia	Malaysia	Philippines	Thailand	Hong Kong SAR, China	Korea, Rep.	Singapore	Taiwan, China	Total
Dec-1997	142.8	17.4	20.8	7.3	26.3	92.8	20.4	71.3	83.5	482.5
Dec-1998	149.2	23.5	25.6	9.3	28.8	89.7	52.0	75.1	90.3	543.4
Dec-1999	157.7	27.3	30.6	13.3	34.1	96.2	74.0	77.0	106.2	616.4
Dec-2000	168.3	29.4	28.4	13.1	32.0	107.5	96.1	80.2	106.7	661.8
Dec-2001	215.6	28.0	29.6	13.5	32.4	111.2	102.8	75.7	122.2	730.9
Dec-2002	291.1	32.0	33.4	13.3	38.1	111.9	121.3	82.2	161.7	885.1
Dec-2003	408.2	36.3	44.6	13.7	41.1	118.4	155.3	96.2	206.6	1,120.3
Dec-2004	614.5	36.3	66.4	13.1	48.7	123.5	199.0	112.6	241.7	1,455.9
Dec-2005	821.5	34.7	70.2	15.9	50.7	124.2	210.3	116.2	253.3	1,697.1
Dec-2006	1,068.5	42.6	82.2	20.0	65.3	133.2	238.9	136.3	266.1	2,053.0
Dec-2007	1,530.3	56.9	101.1	30.2	85.2	152.6	262.1	163.0	270.3	2,651.7
Dec-2008	1,949.3	51.6	91.2	33.2	108.7	182.5	201.1	174.2	291.7	3,083.4
Dec-2009	2,416.0	66.1	96.4	38.8	135.5	255.8	269.9	187.8	348.2	3,814.5
Jan-2010	2,432.0	69.6	95.7	40.2	139.5	257.0	273.6	189.6	350.7	3,847.8
Feb-2010	2,441.2	69.7	95.6	40.2	138.8	258.2	270.6	187.6	352.7	3,854.6
Mar-2010	2,463.5	71.8	94.0	39.6	141.1	258.8	272.3	196.9	355.0	3,893.0
Apr-2010	2,506.9	78.6	94.7	40.6	144.4	259.2	278.8	203.2	357.6	3,963.9
May-2010	2,456.2	74.6	96.2	41.0	140.2	256.1	270.1	198.1	360.1	3,892.7
Jun-2010	2,471.2	76.3	93.3	41.8	143.4	256.7	274.1	199.7	362.4	3,919.1
Jul-2010	2,556.4	78.8	93.6	42.4	147.7	260.6	285.9	206.7	370.1	4,042.2
Aug-2010	2,565.3	81.3	93.8	42.8	151.2	261.3	285.3	206.2	372.1	4,059.2
Sep-2010	2,666.9	86.6	107.5	46.4	159.0	266.0	289.7	214.5	380.5	4,216.9
Oct-2010	2,779.8	91.8	114.1	50.3	166.7	267.0	293.3	221.2	383.8	4,368.0
Nov-2010	2,786.1	92.8	104.3	53.7	163.5	266.0	290.2	217.4	379.3	4,353.0
Dec-2010	2,866.1	96.2	104.9	55.4	167.5	268.6	291.5	225.5	382.0	4,457.7
Jan-2011	2,952.4	95.3	106.5	57.0	169.7	273.1	295.9	226.9	387.1	4,563.8
Feb-2011	3,012.2	99.6	108.1	56.9	174.9	272.6	297.6	230.7	390.7	4,643.3
Mar-2011	3,067.2	105.7	112.2	58.9	176.5	272.5	298.5	234.0	392.6	4,718.2
Apr-2011	3,168.5	113.8	128.3	60.9	184.4	276.8	307.1	242.3	399.5	4,881.7
May-2011	3,188.3	118.1	131.1	61.3	180.1	275.8	305.0	239.7	398.7	4,898.0
Jun-2011	3,219.8	119.7	132.6	61.4	178.8	277.1	304.4	242.1	400.3	4,936.1
Jul-2011	3,267.4	122.7	133.7	64.2	181.0	278.7	309.7	248.9	400.8	5,007.0
Aug-2011	3,284.4	124.6	134.5	68.4	180.3	279.4	310.9	249.0	400.3	5,031.8
Sep-2011	3,223.0	114.5	129.1	67.7	172.1	277.5	302.1	233.4	389.2	4,908.6
Oct-2011	3,295.5	114.0	132.9	67.9	173.5	281.6	309.7	245.2	393.3	5,013.6
Nov-2011	3,242.2	111.3	132.9	68.1	169.6	282.4	306.5	240.8	388.0	4,941.8
Dec-2011	3,202.8	110.1	131.8	67.3	167.4	285.3	304.2	237.5	385.5	4,892.0
Jan-2012	3,275.8	112.0	132.2	68.5	170.0	292.7	309.2	245.3	390.3	4,995.9
Feb-2012	3,331.3	112.2	132.9	68.1	172.0	294.6	313.6	246.8	394.4	5,066.0
Mar-2012	3,326.6	110.5	133.7	65.7	171.0	294.7	313.8	243.4	393.9	5,053.2
Apr-2012	..	116.4	..	65.6	170.7	..	314.7	245.9	395.1	..

Sources: Haver Analytics, Thomson Datastream, and IMF International Financial Statistics

Appendix Table 8a. East Asia: Balance of Payments

In percent of GDP

	Overall Balance					Current Account					Capital Account 1/				
	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
East Asia (11)	8.8	6.8	8.2	7.0	4.4	8.4	7.1	5.7	4.5	3.5	0.5	-0.3	2.4	2.5	1.0
China	13.1	10.6	8.0	7.9	5.3	10.1	9.1	5.2	4.0	2.8	3.0	1.5	2.8	3.9	2.5
S.E. Asia	5.6	1.4	3.1	4.7	3.0	5.1	2.7	5.3	3.2	2.9	0.5	-1.3	-2.3	1.5	0.4
Indonesia	2.9	-0.4	2.3	4.3	1.4	2.4	0.0	2.0	0.7	0.2	0.5	-0.4	0.3	3.5	1.2
Malaysia	7.0	-2.5	2.0	-0.3	11.1	15.9	17.7	16.4	11.5	11.5	-8.8	-20.1	-14.4	-11.8	-0.4
Philippines	5.7	0.1	3.8	7.2	4.5	4.7	2.1	5.5	4.4	3.1	1.0	-2.0	-1.7	2.7	1.4
Thailand	6.4	8.9	9.1	9.8	0.4	5.9	0.8	8.3	4.1	3.4	0.5	8.2	0.8	5.7	-3.1
Vietnam	14.4	0.5	-9.1	-1.7	1.0	-9.8	-11.9	-6.6	-4.1	-0.5	24.9	13.7	7.7	6.0	4.4
NIEs	2.5	1.0	12.7	6.2	2.5	7.0	4.9	7.7	7.2	6.6	-4.5	-4.0	5.0	-1.0	-4.1
Hong Kong SAR, China	7.1	15.7	33.9	4.1	5.9	12.3	13.7	8.6	5.5	5.1	-5.2	2.0	25.3	-1.4	0.8
Korea, Rep.	1.4	-6.0	8.1	2.7	1.2	2.1	0.3	3.9	2.9	2.4	-0.6	-6.3	4.3	-0.2	-1.1
Singapore	10.9	6.9	6.1	18.5	6.6	25.8	13.9	16.2	24.4	21.9	-14.8	-7.0	-10.1	-5.9	-15.3
Taiwan, China	-1.0	6.6	14.3	9.3	1.3	8.9	6.9	11.3	9.2	8.8	-10.0	-0.3	3.0	0.1	-7.5
Median	6.4	6.6	8.0	7.2	4.5	8.9	6.9	8.3	4.4	3.4	-0.6	-0.4	0.8	0.1	-0.4

Sources: IMF, Haver Analytics, national sources
Note: 1/ Capital Account + Financial Account + Errors and Omissions

Appendix Table 8b. East Asia: Financial Account Components

In percent of GDP

	Net FDI					Net Portfolio Investment					Net Other Capital 2/				
	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
East Asia (11)	2.2	1.6	0.7	1.9	1.7	-1.3	-0.4	0.0	0.0	-0.1	-0.7	-1.9	2.3	1.4	-0.4
China	4.1	2.7	1.4	3.1	2.3	0.5	0.9	0.8	0.4	0.3	-2.0	-2.7	1.4	1.2	0.3
S.E. Asia	1.2	0.8	0.4	1.2	0.8	1.4	-2.4	0.3	2.8	1.3	-1.6	0.4	-2.0	-0.3	-0.8
Indonesia	0.5	0.7	0.5	1.6	1.2	1.3	0.3	1.9	1.9	0.5	-1.1	-1.4	-1.5	0.3	-0.1
Malaysia	-1.5	-3.5	-3.4	-1.8	-1.5	2.9	-11.4	-0.2	6.3	3.6	-7.5	-1.1	-8.5	-7.0	-0.3
Philippines	-0.4	0.7	1.0	0.3	0.6	3.1	-2.1	-0.4	2.1	2.5	-0.3	0.4	-1.6	1.2	-0.8
Thailand	3.1	1.6	0.3	1.3	-0.3	-2.5	-0.8	-2.1	2.9	1.0	-1.2	3.7	0.8	3.3	-2.6
Vietnam	9.2	10.3	7.4	6.9	5.9	8.8	-0.6	-0.1	2.3	1.1	7.0	4.0	0.4	-3.2	-2.6
NIEs	-1.0	-0.4	-1.4	-1.5	0.5	-6.4	-2.3	-2.7	-3.4	-2.8	2.3	-1.4	8.5	3.4	-2.5
Hong Kong SAR, China	-3.3	4.2	-5.5	-10.9	0.6	-1.3	-17.6	-20.5	-26.8	-1.5	-5.0	14.4	48.1	30.7	-3.7
Korea, Rep.	-1.7	-1.8	-1.8	-2.2	-1.4	-2.5	-0.3	5.9	4.2	0.9	3.6	-4.0	-0.1	-2.0	-1.1
Singapore	5.6	2.6	3.6	12.0	14.9	-26.7	6.1	-21.6	-11.8	-11.0	6.3	-16.8	5.8	-5.9	-19.3
Taiwan, China	-0.8	-1.2	-0.8	-2.1	-3.2	-10.2	-3.1	-2.7	-4.8	-7.6	1.1	3.9	7.1	6.8	4.0
Median	-0.4	0.7	0.3	0.3	0.6	-1.3	-0.8	-0.4	1.9	0.5	-1.1	-1.1	0.8	1.2	-0.8

Sources: IMF, Haver Analytics, national sources
Note: 2/ Net Other Investment + Net Financial Derivatives

Appendix Table 9. East Asia: Nonperforming Loans

in percent of total loans

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011			
	Dec	Dec	Dec	Dec	Dec	Dec	Dec	Dec	Dec	Dec	Dec	Dec	Dec	Dec	Mar	Jun	Sep	Dec
China 1/	..	..	..	..	..	23.6	17.9	13.2	8.6	7.1	6.2	2.4	1.6	1.1	1.1	1.0	.	.
Indonesia 2/	7.2	48.6	32.9	18.8	12.1	7.5	6.8	4.5	7.6	6.1	4.1	3.2	3.3	2.6	2.9	2.8	2.8	2.3
Malaysia 3/	..	10.6	11.0	9.7	11.5	10.2	9.0	7.5	5.8	4.8	3.2	2.2	1.8	2.3	2.2	2.0	1.8	1.9
Philippines 4/	..	11.0	12.7	14.9	16.9	14.6	13.8	12.5	8.6	6.1	4.9	4.1	3.7	3.6	3.7	3.1	3.1	.
Thailand 5/	..	45.0	38.9	17.7	10.4	15.7	12.7	10.7	8.2	7.5	7.3	5.3	4.9	3.6	3.2	3.0	2.8	2.7
Korea, Rep. 6/	6.0	7.3	13.6	8.8	3.3	2.4	2.2	2.0	1.3	0.9	0.7	1.1	1.2	1.9	2.0	1.7	1.7	1.4

Source: National data sources

Notes

1/ Covers only the major commercial banks for 2002-04, and all commercial banks for 2005-10

2/ Excludes IBRA's AMC. Data for 1997 to 2002 excludes state banks; the data source is the Monetary Division of Bank Indonesia. Data from 2003 covers all commercial banks including state banks; the data source is the Banking Supervision Division of Bank Indonesia.

3/ Excludes Danaharta. This series, used by Bank Negara Malaysia, is net of provisions and excludes interest in suspense. Beginning financial year 2010, banking institutions are required to report impaired loans in accordance with the Guideline on the Classification and Impairment Provisions for Loans/Financing. The reporting of non-performing laons has since been discontinued.

4/ Includes interbank loans.

5/ Excludes transfers to AMCs. The jump in headline NPLs in December 2002 was a one-off increase, reflecting a change in definition and did not affect provisioning.

6/ Excludes KAMCO/KDIC

Appendix Table 10. East Asia: Financial Market Indicators

Stock Market Index, end-of-period, Dec. 31, 2007 = 100

	Jun-07	Dec-07	Jun-08	Dec-08	Jun-09	Dec-09	Jun-10	Dec-10	Jun-11	Des-11	Mar-12	May-12*
China	72.6	100.0	52.0	34.6	56.3	62.3	45.5	53.3	52.4	41.7	42.9	45.7
Indonesia	77.9	100.0	85.6	49.4	73.8	92.3	106.1	134.9	141.6	139.2	150.1	150.5
Malaysia	93.7	100.0	82.1	60.7	74.4	88.1	90.9	105.1	109.3	105.9	110.5	109.9
Philippines	101.1	100.0	67.9	51.7	67.3	84.3	93.1	116.0	118.5	120.7	141.0	143.4
Thailand	90.5	100.0	89.6	52.4	69.6	85.6	92.9	120.4	121.4	119.5	139.5	138.8
Vietnam	110.5	100.0	43.1	34.0	48.4	53.4	54.7	52.3	46.7	37.9	47.4	52.4
Hong Kong SAR, China	78.3	100.0	79.5	51.7	66.1	78.6	72.4	82.8	80.5	66.3	73.9	72.7
Korea, Rep.	91.9	100.0	88.3	59.3	73.3	88.7	89.5	108.1	110.7	96.2	106.2	102.5
Singapore	100.3	100.0	85.1	50.8	67.3	83.6	81.8	92.0	90.0	76.4	86.9	83.8
Taiwan, China	104.4	100.0	88.4	54.0	75.6	96.3	86.2	105.5	101.7	83.1	93.1	88.0

Source Thomson Datastream

Yields, 10-year local-currency government bonds, end-of-period, in percent

	Jun-07	Dec-07	Jun-08	Dec-08	Jun-09	Des-09	Jun-10	Dec-10	Jun-11	Des-11	Mar-12	May-12*
China	4.4	4.5	4.5	2.8	3.2	3.6	3.3	3.9	3.9	3.4	3.5	3.6
Indonesia	9.0	10.0	13.4	11.9	11.1	10.1	8.4	7.6	7.5	6.0	5.9	6.2
Malaysia	5.0	4.1	4.9	3.2	4.4	4.3	4.0	4.0	3.9	3.7	3.7	3.6
Philippines	7.4	6.6	9.4	7.4	8.1	8.1	7.9	6.1	6.6	5.4	5.8	5.7
Thailand	4.5	5.0	5.9	2.7	3.7	4.2	3.1	3.7	3.9	3.3	3.8	3.8
Vietnam	7.8	9.1	16.0	10.2	9.7	11.5	11.5	11.8	12.5	125.0	11.5	10.4
Hong Kong SAR, China	4.8	3.4	3.5	1.9	2.6	2.6	2.3	2.9	2.3	1.5	1.2	1.1
Korea, Rep.	5.5	5.7	6.0	4.2	5.2	5.4	5.0	4.5	4.3	3.8	4.0	3.8
Singapore	2.9	2.7	3.6	2.1	2.6	2.7	2.4	2.7	2.3	1.6	1.7	1.5
Taiwan, China	2.5	2.6	2.7	1.4	1.6	1.5	1.4	1.6	1.6	1.3	1.3	1.2

Source Bloomberg

Foreign-Currency Government Bond Spreads (EMBIG), end-of-period, in basis points over US Treasuries

	Jun-07	Dec-07	Jun-08	Dec-08	Jun-09	Des-09	Jun-10	Dec-10	Jun-11	Des-11	Mar-12	May-12*
China	54	120	137	228	122	104	86	126	155	278	249	252
Indonesia	165	275	381	762	433	230	274	183	178	274	210	251
Malaysia	75	119	153	119	167	136	171	117	131	178	168	170
Philippines	155	172	303	546	324	206	266	163	160	242	181	201
Vietnam	122	203	368	747	379	314	338	323	329	510	340	391

Source JP Morgan, Bloomberg

Credit Default Swap (CDS) Spreads on Foreign-Currency Government Bonds, 5-year, end-of-period, in basis points

	Jun-07	Dec-07	Jun-08	Dec-08	Jun-09	Des-09	Jun-10	Dec-10	Jun-11	Des-11	Mar-12	May-12*
China	13	29	75	188	75	73	91	68	85	144	110	121
Indonesia	110	154	286	638	317	188	186	133	141	202	163	187
Malaysia	16	44	116	225	105	90	102	74	93	144	102	123
Philippines	111	153	266	384	217	168	174	130	138	185	139	154
Thailand	39	55	135	256	110	96	134	99	136	179	130	146
Hong Kong SAR, China	5	18	42	104	68	48	57	46	54	91	66	70
Korea, Rep.	17	47	107	319	182	85	131	98	103	156	118	129
Singapore	..	.	..	45	45	35	45	45	90	83	83	83

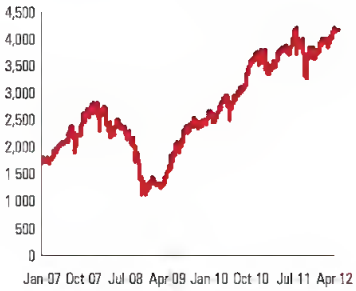
Source Thomson Datastream
Note *May 10, 2012

APPENDIX CHARTS

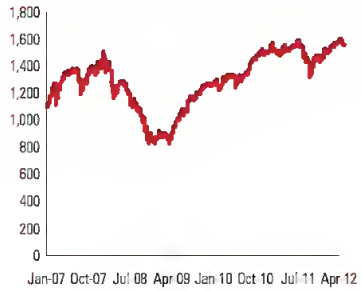
Appendix Chart 1. East Asia: Stock Market Price Indices

China: Stock Market (Shanghai A Share) Price Index

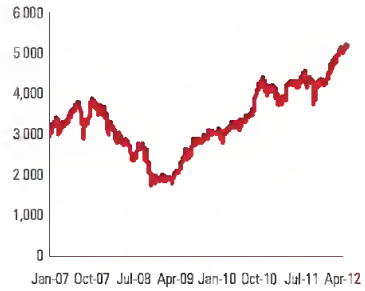
Indonesia: Stock Market (Jakarta Composite) Price Index



Malaysia: Stock Market (KLCI Composite) Price Index



Philippines: Stock Market (PSEi) Price Index



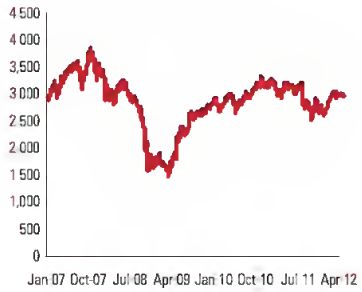
Thailand: Stock Market (Bangkok SET) Price Index

Vietnam: Stock Market (Ho Chi Minh) Price Index

Hong Kong SAR, China: Stock Market (Hang Seng) Price Index

Korea, Rep.: Stock Market (KOSPI) Price Index

Singapore: Stock Market (STIL) Price Index



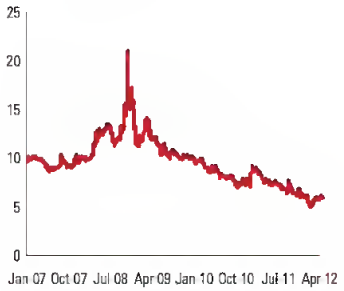
Taiwan, China: Stock Market Price Index

Source: Thomson Datastream

Appendix Chart 2. East Asia: Local-Currency 10-Year Government Bond Yields

China: 10-Year LCY Government Bond Yield

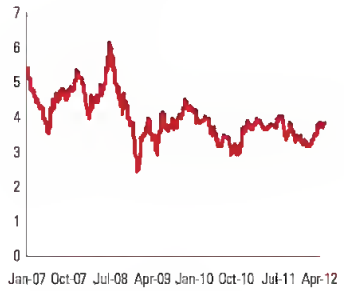
Indonesia: 10-Year LCY Government Bond Yield



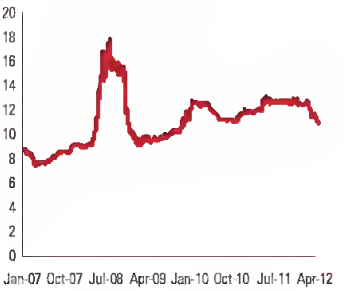
Malaysia: 10-Year LCY Government Bond Yield

Philippines: 10-Year LCY Government Bond Yield

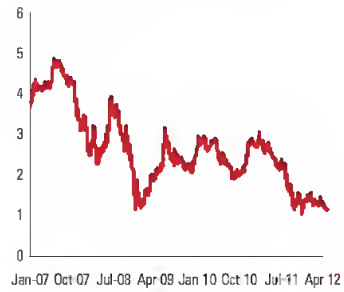
Thailand: 10-Year LCY Government Bond Yield



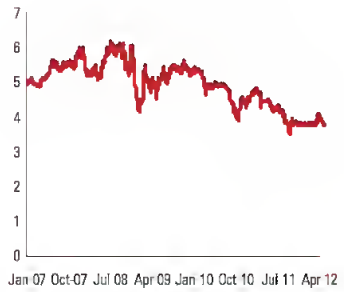
Vietnam: 10-Year LCY Government Bond Yield



Hong Kong SAR, China: 10-Year LCY Government Bond Yield

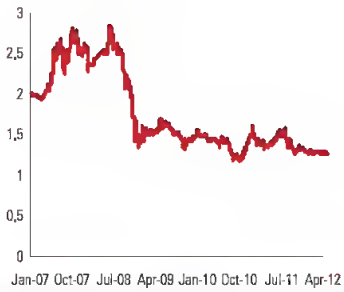


Korea, Rep.: 10-Year LCY Government Bond Yield



Singapore: 10-Year LCY Government Bond Yield

Taiwan, China: 10-Year LCY Government Bond Yield



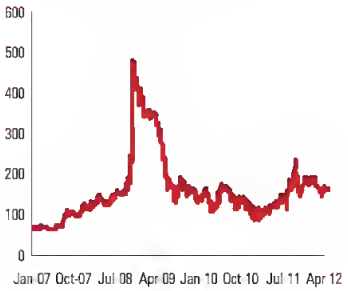
Source Bloomberg

Appendix Chart 3. East Asia: Foreign-Currency Government Bond Spreads

China: EMBI-Global Bond Spreads, basis points

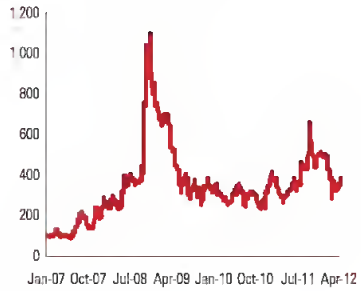
Indonesia: EMBI-Global Bond Spreads, basis points

Malaysia: EMBI-Global Bond Spreads, basis points



Philippines: EMBI-Global Bond Spreads, basis points

Vietnam: EMBI-Global Bond Spreads, basis points

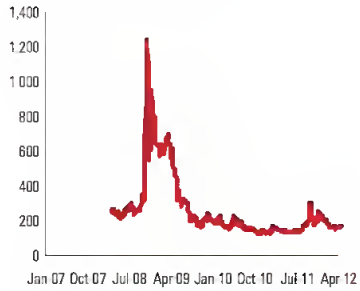


Source JPMorgan Emerging Markets Bond Index Global (EMBIG), via Bloomberg

Appendix Chart 4. East Asia: Sovereign Credit Default Swap (CDS) Spreads

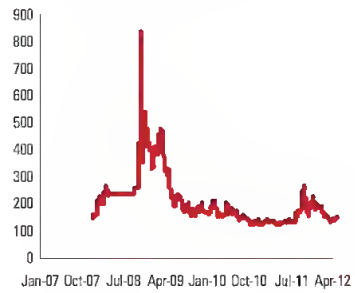
China: CDS Spreads, 5-Year Government, basis points

Indonesia: CDS Spreads, 5-Year Government, basis points



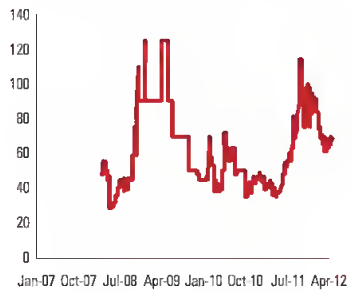
Malaysia: CDS Spreads, 5-Year Government, basis points

Philippines: CDS Spreads, 5-Year Government, basis points

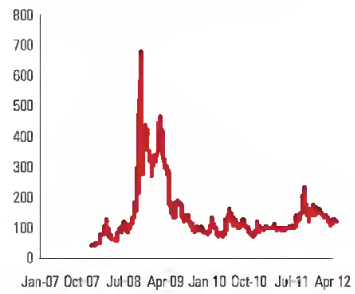


Thailand: CDS Spreads, 5-Year Government, basis points

Hong Kong SAR, China: CDS Spreads, 5-Year Government, basis points



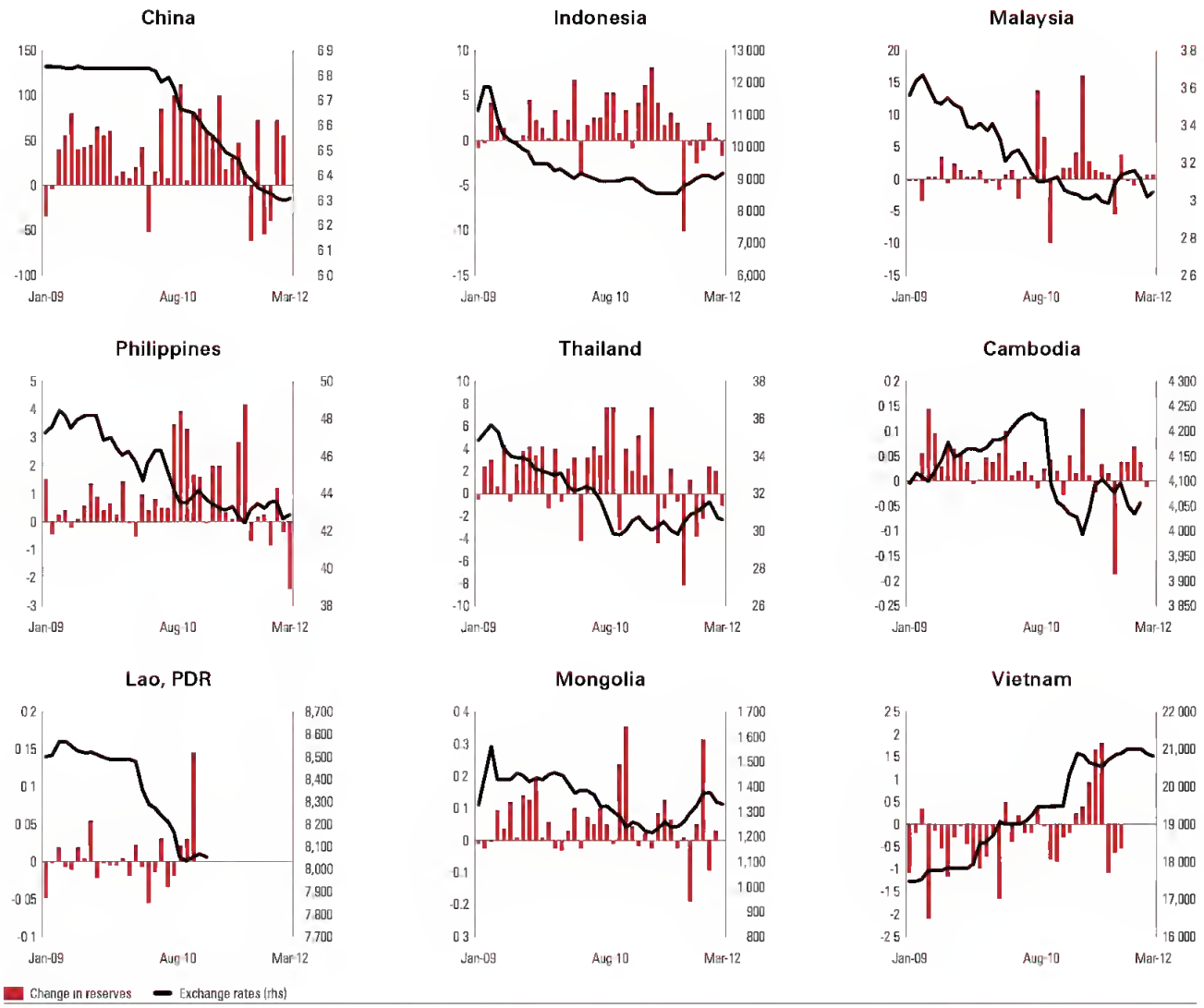
Korea, Rep.: CDS Spreads, 5-Year Government, basis points



Source Thomson Reuters, via Datastream

Appendix Chart 5. East Asia: Foreign Exchange Reserves and Exchange Rates

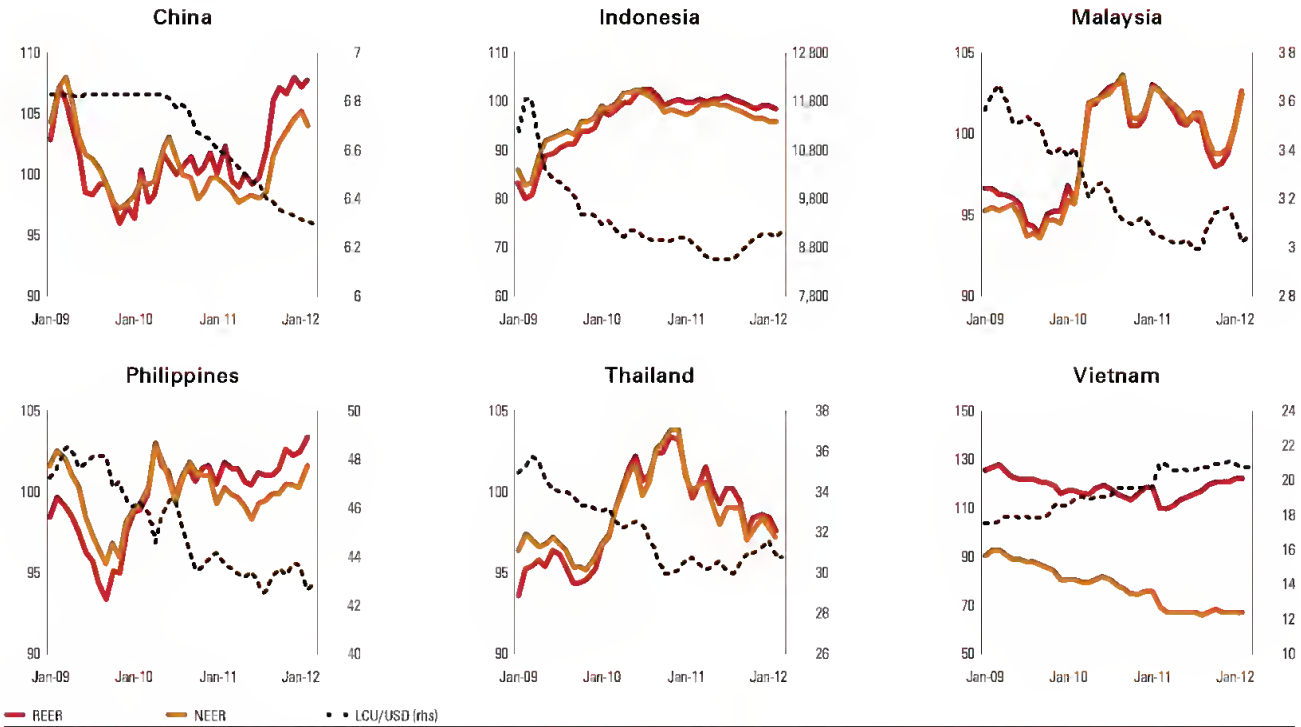
In billions of US dollars and in local currency unit per US dollar



Source: Haver Analytics and IMF

Appendix Chart 6. East Asia: Real and Nominal Exchange Rates*

Indices, 2010 = 100, and in local currency unit per US dollar



Sources: BIS, IMF and Haver Analytics
Note: *REER = real effective exchange rate, NEER = nominal effective exchange rate, LCU = local currency units

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